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FIRST
MALAYSIA PLAN
1966-1970

LC Kuala Lumpur 1965

DI-CHETAK DI JABATAN ~~CHETAK KERAJAAN~~,
OLEH MOHAMED BIN ABDULLAH, PEMANGKU PENCHETAK KERAJAAN
KUALA LUMPUR
1965

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FOREWORD

The year 1965 marks the final phase of the Malayan Second Five-Year Plan and the advent of a new comprehensive and integrated Plan for the development of all the constituent states of Malaysia.

The progress made over the last five years in the Malaysian economy has been impressive and gratifying. While the people and the Government can rightly be proud of this achievement, I look upon this record with deep humility for we cannot afford to be complacent. The key to progress and prosperity lies not in satisfaction with what we have already achieved but in a firm determination to make ever greater efforts in the future. The next few years will be crucial in the history of Malaysia. All Malaysians need to redouble their efforts to sustain economic growth and development in the face of the many complex problems and challenging tasks ahead.

The First Malaysia Plan represents a major step forward in meeting this challenge. With the launching of this Plan, involving a total development outlay of $10,500 million in both the public and private sectors, we will consolidate the foundation already laid for the far-reaching process of Malaysia's modernisation and nation-building. The Plan is presented in two parts: Part One sets out the position and problems of the economy and the objectives and strategy of the Plan. Part Two contains the detailed sector programmes, including the development expenditure and policies to be undertaken by the Government in each area of activity. The policies and programmes are mapped out in a clear assigned order of priority to achieve the economic and social goals of the nation.

The bold and ambitious targets envisaged in the Plan are nevertheless realistic in relation to the resources and capacity of the economy although immense efforts will be needed to mobilise and obtain the requisite internal and external resources for Plan implementation.

Malaysians should regard the First Malaysia Plan as an opportunity for each and everyone to serve in the battle for prosperity and security by giving the national economic development and defence the absolute top priority that the country requires. The success of the First Malaysia Plan will demonstrate to the world and all Malaysians alike that in the face of national emergency and threats of external aggression, we are undeterred in our efforts to raise living standards by promoting sustained economic growth with an imaginative and constructive programme of development.

The achievement of the objectives of the Plan will require determination, self-reliance and sacrifice for the sake of a better life and a secure economic, social and political future. The Government does not conceal the immense problems with which the nation is confronted but accepts the challenge of development and will play its role in the attainment of a better, happier and more peaceful life for all Malaysians. The Government is equipped and fully prepared to deploy its resources and exercise its imagination and ingenuity to discharge this national responsibility. It is my hope that Malaysians, whose magnificent response and enthusiasm have been responsible for the success of the country's development programmes in recent years, will continue to participate in this great development effort under the First Malaysia Plan. Leaders in the trade unions and management should also share fully in this opportunity and responsibility to help develop the country. I am confident that this Plan will receive the full co-operation and support that it deserves for the good of the people and future generations.

In submitting this Plan for adoption by both the Dewan Ra'ayat and Dewan Negara, I wish to record my appreciation of the good work of the Chairman, Dato' Abdul Jamil bin Abdul Rais, and members of the NDPC, the officials of the Central and State Governments and public authorities as well as the representatives of the private sector all of whom have given generously their time and views. I would also like to pay a warm tribute to my colleague, the Deputy Prime Minister, Tun Abdul Razak, who, in spite of his many other heavy commitments, devoted his close and personal attention to directing the preparation of the Plan. In addition, I would like, on behalf of the Government, to express my sincere thanks to the World Bank and its Mission staff members, particularly Mr William M. Gilmartin, for their valuable advice and assistance.

(TUNKU ABDUL RAHMAN PUTRA AL-HAJ),
Prime Minister

KUALA LUMPUR,
25th November, 1965

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CHAPTER I

Malaysian Economic Development—Position, Problems and Plans

1. Malaysia has made notable progress in a number of areas of economic and social development. The country enjoys a relatively high standard of living and an atmosphere of social harmony in a multi-racial society. Nevertheless, there are many economic and social problems outstanding and much work to be done. The First Malaysia Plan seeks to attack these problems through a carefully conceived and vigorously executed effort at planned social and economic development. The success of this effort is an essential prerequisite to the achievement of the over-riding goal of a happier and more prosperous Malaysia.

I.—ECONOMIC PROBLEMS

2. The main socio-economic problems facing the nation at present are:

(i) A heavy dependence upon two export products: rubber, whose world price is falling steadily, and tin, the known reserves of which are rapidly being depleted;

(ii) A high rate of population increase, which poses a challenging problem of finding productive employment for each year's new entrants into the labour force and imposes a social cost in that resources which might have been used to increase levels of welfare must instead be devoted to supporting the growing population at the existing standard of living;

(iii) An uneven distribution of income, which involves wide disparities between rural and town dwellers and between inhabitants of Malaya and the Borneo States, as well as among various social groups;

(iv) A relatively low level of human resource development, which results in shortages of many of the skills needed to carry out development.

II.—OBJECTIVES OF THE FIRST MALAYSIA PLAN

3. The First Malaysia Plan is designed to make a bold and imaginative attack on Malaysia's problems. The main objectives of the Plan are:

(i) To promote the integration of the peoples and states of Malaysia by embarking upon a development plan explicitly designed to promote the welfare of all;

(ii) To provide steady increases in levels of income and consumption per head;

(iii) To increase the well-being of Malaysia's rural inhabitants and other low-income groups, primarily by raising their productivity and thus their income-earning capacity;

(iv) To generate employment opportunities at a rate sufficient to provide productive work for new entrants to the labour force and lower the rate of unemployment;

(v) To stimulate new kinds of economic activity, both agricultural and industrial, so as to reduce the nation's dependence on rubber and tin;

(vi) To educate and train Malaysians from all walks of life in order to equip them for effective participation in the process of economic and social development;

(vii) To lay the groundwork for less rapid population growth by instituting an effective programme of family planning;

(viii) To open for development sufficient new land to keep pace with the formation of new farm families and reduce the number of landless people desiring land for agricultural purposes;

(ix) To provide electric power, transportation facilities and communication services adequate to keep ahead of foreseen demands;

(x) To progress with health and social welfare development, low-cost housing and a wide range of other projects.

4. The First Malaysia Plan will consolidate past progress and initiate new efforts towards these objectives. It incorporates detailed programmes of action to be undertaken during the next five years, based on a full appreciation of the problems and a general strategy of how they are to be solved over a longer period of time.

III.—MALAYSIA'S PEOPLE AND INCOME LEVEL

5. The states of Malaysia differ widely in their human and natural resources and are at different stages of economic and social development. These differences exist not only between Malaya and the Borneo States but also within Malaya and between Sabah and Sarawak.

6. The productivity of Malaya's modern economic sector has resulted in a level of income *per capita* in the peninsula which is one of the highest in Asia. This modern sector is located primarily west of the main mountain range. Most of the rubber estates and tin mines, most of the towns and 80% of Malaya's population are in this West Coast region, which comprises about 40% of Malaya's land area. East of this area are people and regions far less touched by modern life, few towns and vast areas of virgin jungle. About one-half the population of Malaya are Malays, three-eighths Chinese and the remainder mostly Indians, with a small number of Eurasians, aborigines and others.

TABLE 1-1

MALAYSIA: POPULATION DENSITY, 1965

	Area		*Population*		
	Square miles	*% of total*	*Thousands*	*% of total*	*Population per square mile*
Malaya	50,840	39.8	8,052	85.6	158
West	*20,840*	*16.3*	*6,683*	*71.0*	*321*
East	*30,000*	*23.5*	*1,369*	*14.5*	*46*
Sabah	28,490	22.3	520	5.5	18
Sarawak ...	48,340	37.9	839	8.9	17
MALAYSIA ...	127,670	100.0	9,411	100.0	74

7. Sabah and Sarawak are large areas with small scattered populations, made up of heterogeneous racial groups. Sarawak is almost as large as Malaya in area but has only about a tenth as many people. Its two largest racial groups are the Chinese and Sea Dayaks, each of which accounts for about 30% of the population. Malays, Land Dayaks, Melanaus and a number of other indigenous groups make up the remainder. Sabah is three-fifths the size of Malaya and has only one-fifteenth as much population. Its population density is virtually identical to that of Sarawak, a little over a third the density of Eastern Malaya. Kadazans represent about a third of the population of Sabah and other indigenous groups make up another third. Most of the non-indigenous people, nearly a quarter of Sabah's population, are Chinese.

8. Eastern Malaya and the Borneo States rely primarily on small-scale agriculture and fishing. There is relatively little estate agriculture in the Borneo States, although in Sabah the estate sector has expanded significantly in recent years. Both Sabah and Sarawak have benefited in recent years from the rapid expansion of a modern, large-scale timber industry.

9. Malaysia's gross national product (GNP) is about $8,730 million in 1965. *Per capita* income averages about $930. Nearly 90% of this income originates in Malaya, which has a *per capita* income level of about $950, whereas the levels enjoyed by Sabah and Sarawak are somewhat lower, roughly $860 and $740 respectively.

TABLE 1-2

MALAYSIA: GROSS NATIONAL PRODUCT AT MARKET PRICES, 1965

	Total *($ millions)*	*Per capita* *($)*
Malaya	7,663	952
Sabah	448	862
Sarawak	618	737
MALAYSIA	8,729	928

IV.—MALAYSIA'S ECONOMIC STRENGTHS

10. Malaysia is a new nation, with its share of the problems which beset many new nations today. But Malaysia is fortunate in having, apart from its political and financial stability, a high level of past economic development from which its effort at planned economic and social development can proceed.

11. Malaysia's relatively high income level has been produced primarily by the growth of the rubber and tin industries. Malaysia is the world's largest producer of both natural rubber and tin, which together account for 55% of the nation's exports and about 30% of GNP in 1965. Particularly in rubber, the progress of Malaysian production has been based on the application of modern research. Nearly 80% of estate acreage and many smallholdings are now planted with high-yielding trees and more of these are maturing each year. The handling and processing of rubber are continuously being improved and developed. A new Standard Malaysian Rubber (ESEMAR) has recently been introduced as a standard quality product based on scientific grading instead of the traditional visual grading.

12. Whereas rubber is peculiarly a twentieth century product, tin has been mined in Malaya for centuries. A substantial share of tin output comes from modern dredges. These machines can economically handle deposits with low tin content and can thus rework areas which have already been mined once. Current favourable tin prices are encouraging expansion of production, as well as greater efforts to find new tin deposits. Most of the expansion during the last two years has been from gravel pump mines, since these can be set in operation much faster and at lower cost than dredges.

13. In these two lines of productive activity and also in foreign trade Malaysia has developed vigorous and capable entrepreneurs and managers. With sufficient capital, skills and managerial competence, Malaysian businessmen have brought these traditional activities to a high degree of development. A growing proportion of the nation's talent and capital is now entering new areas of economic activity. Traders are moving into the servicing of motor vehicles, air-conditioners, television receivers and the rapidly growing list of other modern machines and equipment which are becoming more and more numerous in Malaysia. Other businessmen are entering manufacturing industry; this process is being facilitated by the government's policy of encouraging private industrial enterprise. While there may be difficulties in some individual cases in achieving the necessary scale of production in new activities or in making the psychological transfer from commercial to industrial processes, Malaysia is generally well endowed with business talent.

14. In addition to an efficient and productive private sector, Malaysia has an effective public administration and a tradition of law and order. Since Merdeka in 1957 the Malayan Government has instituted a vigorous social and economic development programme. Sabah and Sarawak have also had public investment programmes but the First Malaysia Plan represents an effort to accelerate economic development in the Borneo States as well as the first attempt to plan for Malaya and the Borneo States together.

V.—THE NEED FOR ECONOMIC DEVELOPMENT

15. Despite the successes of the past and the relatively high standard of living already achieved, Malaysia urgently needs rapid economic development in the future. In the first place, the nation's population is currently growing at about 3% a year. At this rate, population will double in less than 25 years. This extremely rapid rate of population increase imperils efforts to raise *per capita* income levels, since considerable economic growth is required from year to year just to provide for the needs of new additions to the population at existing living standards. The rapidly rising population is also reflected in a high rate of increase of the number of people seeking employment. If economic growth is not rapid enough to provide jobs for these new job seekers, frustration and discontent will be the result. The success of the government's new programme of family planning, aided by changes in attitudes toward family size which are likely to accompany economic development, will in time reduce the birth rate and hence the rate of population growth. But such a process takes time and until the birth rate is brought down the economy must grow rapidly just to keep average income levels from stagnating or even declining.

16. Secondly, present standards of private consumption and public services must be raised, for better education, health services and housing are the legitimate aspirations of the people of Malaysia. And, if the economy is to expand, an improved economic infrastructure—roads, ports, power, telecommunications—will be required. Unless the size of the national income grows it will not be possible to provide these public services save at the expense of increases in private consumption levels.

17. Finally, the fruits of economic growth so far have been unevenly distributed. Several groups in Malaysian society receive much lower private incomes and fewer public services than the rest of the population. These groups include the unemployed and other obviously weak segments of the population such as aborigines in Malaya and shifting cultivators in the Borneo States. But the problem is not limited to these groups. Most smallholders do not have easy access to markets, technical knowledge and skills. Small fishermen are finding it difficult to compete with those who have more capital and modern equipment. Small businessmen often have similar difficulties. Many padi cultivators, especially tenants, do not earn adequate incomes. On the Malayan East Coast and in the Borneo States there are many people who lack adequate access to modern techniques and to credit, markets, storage facilities and transport. Some of these problems also prevail on the Malayan West Coast, especially in rural areas. The government will continue to make every effort to alleviate poverty by providing improved facilities and opportunities for these groups. The resources needed for this effort, if they are not to be extracted at great sacrifice from the rest of the population, can come only from economic growth.

VI.—STRATEGY FOR RAPID GROWTH

18. Rapid development cannot be achieved in the future simply by continuing the traditional pattern of economic growth. The twin pillars of the Malaysian economy, rubber and tin, will remain important for some time to come but they cannot be expected to contribute significantly to income growth, at least over the next five years. Malaysia's natural rubber industry continues to face ever-growing competition from synthetic rubber production in the industrial countries. Because the Malaysian industry has reached a high degree of efficiency it will continue to withstand competition from synthetic rubber more effectively than natural rubber industries in other countries. By progressively reducing its costs of production it will be able to remain viable as prices decline. But it will not be able to prevent the fall of rubber prices, which are determined by the supply and demand of rubber on the international market. Even such very rapid output growth as

is anticipated during the next five years will barely suffice to outweigh the effect of falling prices.

19. Malaysia's second largest industry, tin, must also sell at prices which are determined in the world market. Unlike rubber, tin is in short supply and the development of substitutes for it has been relatively slow. Prices are at favourable levels and may rise further, offering windfall profits to many Malaysian producers. The problem with tin is reserve exhaustion. Known deposits are running out and unless prospecting uncovers new deposits, for example in Malay reservations or offshore, production may decline.

20. Thus the two traditional bulwarks of the economy, though still viable and productive, do not have especially bright prospects for future growth of national income and employment. In particular, over the next five-year period export receipts from rubber and tin are unlikely to rise significantly above their 1965 level (*see* Chapter III). Malaysia must therefore seek to develop new patterns of economic activity which will sustain the growth of the economy during this period of relatively unfavourable circumstances for expanding its traditional exports. There are a number of promising opportunities open to the nation to develop new lines of economic activity.

21. Nearly half the goods and services Malaysians have consumed in recent years have been imported from abroad. The need for imported goods will continue to increase in the future as the country's population, income level and degree of modernisation rise. These imports must be paid for in some manner. As exports of tin and rubber will not expand fast enough, other products which will earn the needed foreign exchange must be sought. In addition, Malaysians must produce for themselves more and more of the items which are at present imported.

22. There are several good possibilities for expanding exports which will be exploited under the First Malaysia Plan.

(i) Rubber replanting will continue, especially on smallholdings, and new rubber will be planted, particularly on land development schemes where soils are not suitable for oil palm. Despite the unfavourable aspects of the world rubber outlook, high-yielding rubber still represents the most productive use of millions of acres of Malaysian land. By raising production and productivity at the fastest possible rates the nation can minimise the adverse effects of falling prices.

(ii) Mineral potentials will be further explored. Malayan tin output and the small petroleum production of Sarawak are both declining as known reserves are gradully exhausted. But knowledge of ultimate mineral potentials is still imperfect and vigorous prospecting may disclose substantial new mineral wealth. In several parts of Malaysia investigations for oil, tin and other mineral deposits are now underway.

(iii) Oil palm production is becoming an increasingly attractive alternative to rubber. It is being found to be suitable for cultivation on a wider variety of Malaysian soils than was thought possible at first. Techniques are being developed whereby it can be grown by smallholders as well as estates. Production of oil palm products will expand rapidly and make an increasingly important contribution to the national income.

(iv) There are many other products which offer opportunities for export expansion and diversification. Among agricultural crops there are bananas, sago, tapioca, cashew-nuts, pineapple, citrus fruit, abaca and many others. In addition, Malaysian industrial products will continue to enter the world market in increasing volume. Over the next five years, however, all these prospects are either too small in their impact on total export proceeds or too far away from readiness for large-scale production.

23. The conclusion must be faced, therefore, that over the next five years export growth will be inadequate to finance import needs and maintain overall economic growth, even after allowance is made for export promotion and diversification.

24. Sluggish export growth is not new to the Malaysian economy. Over the last five years, as outlined in Chapter II, exports also rose slowly. The overall economy, however, grew satisfactorily as production for domestic use increased at a rapid pace. Under the First Malaysia Plan emphasis will again be placed on expanding production for the domestic market. Opportunities for such expansion are extremely favourable. The nation produces only a part of the food it consumes, leaving a wide range of possibilities for import substitution. For manufactured products, reliance on foreign sources of supply is even heavier. Despite its small population, Malaysia's relatively high income level gives it an attractive market for a wide range of manufactured goods.

25. Rice is the leading example of a staple food for which reliance on imports is heavy. Improvement in seed varieties and vigorous extension work are gradually increasing padi production. During the next five years, extensive irrigation works, including the vast Kuala Muda and Kemubu schemes, will add greatly to productive capacity. Involving as it does thousands of small-scale cultivators and a host of inter-woven technical, economic and social problems, however, rice production can be raised only gradually. Other food crops, which are produced in smaller quantities, pose similar problems although some, such as sugar, may be developed into

modern industries in a relatively short time. It is to be expected that domestic food production will grow faster than consumption and that the nation will gradually produce a larger and larger share of the food needed for domestic consumption. But radical changes in the present dependence on food imports will take time to effect.

26. During the period of the First Malaysia Plan the best prospects for import replacement lie in the industrial field. The present high levels of consumption of so many manufactured goods make the opportunities for viable domestic production promising. With the establishment of petroleum refineries, breweries, flour and sugar mills, cigarette and cement plants and a number of other factories, the industrialisation of Malaysia is already off to a good start. Acceleration of this recent progress can be expected under the new Plan. More plants will be set up to process domestic and imported raw materials. And the degree of processing will be extended: for instance, from the assembly of imported components industrialists will move on to the manufacture of some and eventually all of the components in Malaysia. Government policy in the industrial field will become increasingly purposeful and co-ordinated. As in the past, responsibility for the manufacturing operations themselves will be left to the private sector. The government's role will be to maintain a favourable investment climate; to provide industrial estates and transport, power and communication facilities; and to grant tax and other inducements (*see* Chapter VIII for details).

VII.—THE IMMEDIATE ECONOMIC PROSPECT

27. This, then, is the core of the economic programme for the next five years: to promote traditional and new export possibilities, stimulate domestic food production and exploit to the fullest extent the excellent possibilities of industrial production catering for the domestic market. If economic growth can be maintained at an adequate rate through continued development of production for the local market and relatively less reliance upon traditional export commodities, a number of benefits will accrue to Malaysians.

28. First, levels of *per capita* income will continue to rise. It must be recognised, however, that living standards will improve only gradually during the next five years unless rubber and tin perform far better than anticipated. But even gradual rises in income levels will accumulate to substantial improvements in a few years' time.

29. Success in the development strategy for the next five years will also mean that there will be employment opportunities for those who attain working age during this period. The development of new export commodities, the expansion of domestic food production and the rise of a modern

industrial sector will all create new jobs. Similarly, employment opportunities in many parts of the service sector, both private and public, will also expand.

30. Finally, the success of the government's economic programme will mean much more than just increased supplies of the physical necessities of life. Opportunities to lead a fuller, better, more satisfying life increase as production and income levels rise. Because the productive capacity of the economy is increasing succeeding generations will be able to enjoy a fuller measure of educational, cultural, social and recreational services. The stakes are especially high for those groups which at present do not receive even the amenities available to the rest of the population. The ability of the government to help them to extricate themselves from their present position inevitably depends on the resources at its disposal.

VIII.—THE FIRST MALAYSIA PLAN, 1966-70

31. The First Malaysia Plan is a blueprint for making these possibilities materialise. It consists of a programme of public investment for the next five years and an outline of the policies which will be followed to help the private sector make its assigned contribution to development.

32. The overall development expenditure target for 1966-70 is $4,550 million. Of this total about $3,810 million will be spent on economic and social development, while about $600 million and $140 million will be required for defence and internal security respectively. Approximately $835 million is to be spent on social services, of which education expenditure accounts for nearly $450 million. However, the bulk of public expenditure, some $2,775 million, will be allocated to economic services. Of this allocation, well over $1,000 million will be spent on agriculture and rural development. Substantial sums will also be expended on roads, power, water supplies, communications and other economic services.

33. The Plan will offer substantial benefits to both the rural and the urban populations. Besides the $1,000 million to be spent on agriculture and rural development projects, which will directly benefit the rural people by raising their productivity and income levels, expenditure in many other areas will also contribute to rural development. Much of the expenditure to be incurred for education, health, transportation and water supplies will be made in the rural areas. Malaysia's urban sector will share in the development of social and economic services which will take place during the Plan period. Additional housing, education, health, transport and power facilities will contribute to making urban life more pleasant and productive.

34. Underlying the expenditure allocations are certain important investment priorities. A fundamental principle of the public investment programme is that first priority will be given to those programmes and projects which

directly raise output and incomes through agricultural and industrial development or upgrade the quality of human resources through education, especially in the agricultural and technical fields. These are the two main themes of the public investment programme: raising incomes through directly productive investment and building towards much greater productivity in the future through education. Improvement of the relatively underdeveloped transport, communications and utilities networks in the Borneo States has also been accorded first priority but other types of projects have had to take a lower position on the priority scale. The Malayan systems of water supply, power, communications and transportation have already achieved a considerable level of development, so substantial further development in these areas under the First Malaysia Plan is not an urgent necessity. In the fields of community services, health, public housing and other social services, while significant progress will continue to be effected, expenditures cannot be so great as would otherwise be desirable or else sizeable amounts of productive investment would have to be omitted from the investment programme. By concentrating on economically productive projects during this Plan period, the government will be able to increase its resources and thus make it possible in the future to provide a level of social services which will be adequate, even by the standards of developed countries.

IX.—THE FINANCING PROBLEM

35. During the period 1961-65, finances were not a limiting factor on public development expenditure since public revenues and accumulated public sector assets were ample to finance all the projects which the rapidly improving administrative system could implement. In the next five years, however, finance will be the principal constraint on the public development expenditure programme. Because of the large and growing number of calls upon public funds, including those arising from defence and internal security, a larger and larger share of public sector resources will be required each year for purposes other than development. As a result, the annual savings of the public sector will finance only a small share of the development expenditure to be incurred under the First Malaysia Plan. To finance the remainder of the public sector programme the government will therefore have to rely more on mobilising the savings of individuals and institutions in Malaysia, utilising the accumulated assets of the public sector and obtaining loans and grants from abroad.

36. The problem of financing development expenditure under the First Malaysia Plan arises partly from the fact that the government's need for recurrent expenditure is rising rapidly from year to year. The growing population requires not only an ever-increasing quantity and variety of

public services but also improvements in the services already offered. With the large number of development projects which were implemented during the past five years, the annual recurrent cost of manning such facilities is mounting. Furthermore, debt charges are also growing, since loans raised to finance projects have to be serviced. External aggression has also imposed increasingly heavy demands upon public funds. All these factors contribute to the financial problem and make it more difficult for the government to undertake new projects.

37. The financing of public investment during the next five years will thus require greater financial exertions than have ever been made before. A determined effort will have to be made to restrain the growth of recurrent expenditure within certain limits. In order to ensure that recurrent expenditures do not increase unnecessarily and to obtain maximum effectiveness from the money spent on public services, the Federal Government has instituted an Economy Drive. It has also undertaken a comprehensive review of the entire system of public administration.

38. While making every effort to hold the growth of current expenditure within reasonable limits, the government must also raise additional revenue from taxes and charges of various kinds. Aside from the growing revenue which will be raised by existing taxes, it will be necessary to enact additional revenue measures during the five-year Plan period to provide a consolidated governments' surplus of about $200 million. This new revenue, some of which will come from taxes and some from charges levied for public services, is essential if the investment projects contained in the Plan are to be undertaken. The revenue will come out of the added income created by economic growth, leaving the proportion of national income collected by the government no higher in 1970 than it is in 1965. In addition to the revenue raised by the various levels of government, current surpluses of public authorities are expected to yield about $425 million to help finance development expenditure.

39. Net domestic non-bank borrowing is estimated at $1,025 million. The current surplus in the public sector and net domestic borrowing will thus help to finance $1,650 million or 36% of the $4,550 million of development expenditure proposed. An additional $1,000 million can be obtained by running down government accumulated assets and by borrowing from the banking system without adversely affecting the financial stability of the economy. The balance of $1,900 million will, therefore, have to be financed from foreign sources and the Plan aims to raise $1,000 million in loans and the remaining $900 million in grants.

40. The amount of foreign loans and grants envisaged is more than three times the amount raised during the period 1961-65. As the financial situation

is viewed at present, the public investment programme described in Chapter IV and Chapters VII-XIV can be undertaken only if these amounts of aid are forthcoming. Since Malaysia is making substantial efforts to raise funds internally, it has a good case for receiving these amounts of foreign assistance.

41. Because of the free enterprise nature of the economy plans for private investment in 1966-70 are inevitably less precise than plans for public investment. The government will do everything in its power to promote private investment, especially investment in the new lines of economic activity mentioned earlier. It is hoped that foreign as well as domestic private capital will participate actively in the continued modernisation of the Malaysian economy. Financing for the private investment undertaken will be provided by domestic private savings, by public funds channelled into the private sector through institutions such as Malaysian Industrial Development Finance Ltd. (MIDFL) and Majlis Amanah Ra'ayat (MARA) and by capital inflows from abroad.

X.—THE MANPOWER PROBLEM

42. Apart from the problem of mobilising financial resources for public and private investment, Malaysian economic and social development faces one other serious constraint which deserves particular mention. This is the serious shortage of trained and skilled manpower which exists in many areas of economic activity and over a wide range of skills. Shortages of technicians and other key personnel have to a certain extent adversely affected the implementation of some development projects. There are not enough Malaysian doctors, teachers, agricultural specialists, engineers, technicians and administrators. The manpower shortage is most acute in Sabah, where many types of skilled and even unskilled manpower are in extremely short supply. Some of Sabah's manpower problems can be solved by encouraging emigration of people with the needed skills from Malaya but Malaysia as a whole badly needs a substantial increase in the number of trained personnel available.

43. Much of the First Malaysia Plan has had to be formulated in the light of these manpower shortages. In several areas, programmes have had to be trimmed to more modest proportions than was at first thought desirable because the personnel required to implement the projects contemplated were not in existence. Training of Malaysians in most of the technical areas in which manpower shortages exist is being stepped up to levels far greater than anything that has been done before. Still, training requires time, especially at the professional level where several years of education may be necessary. The government is making every effort to ascertain the manpower needs of the nation and develop training and educational programmes which

will create the skilled men and women to satisfy these needs. In the meantime, while the required number of Malaysians is being trained, it will be necessary to trim development programmes to meet the manpower constraint, while continuing to rely to some extent on external technical expertise.

XI.—THE LONG-TERM PROSPECT

44. During the period 1966-70 considerable progress will be achieved in solving many of Malaysia's challenging development problems and a start will be made towards overcoming even the most intractable ones. The prospect for the next five years has already been discussed briefly. It is outlined in greater detail in Chapter III. By 1970 Malaysians will be enjoying higher income levels, a higher rate of employment and a wider range of public services than they do at present. Significant progress will have been made in establishing productive industries to minister to the consumption needs of the country. Education will have reached vastly more people and influenced them more profoundly than ever before. Substantial progress will have been made in bringing about a great transformation in the Malaysian economy and society. Full realisation of this transformation, however, will require much more time than five years. For this reason it is also worthwhile to look farther into the future and ask what the long-term prospect is.

45. There are obvious difficulties in setting targets 20 years ahead. It is, however, essential to set goals for the long-term future and the First Malaysia Plan has been formulated as the first phase of a 20-year Perspective Plan which lays out in general terms what must be done if these long-term goals are to be attained. The numerical framework of the Perspective Plan is presented in Chapter III but the basic objectives and the broad development strategy of the Perspective Plan are briefly summarised below.

46. By 1985 it should be possible to bring about a striking transformation of Malaysia's society and economy. Most of the country's current population will see this transformation take place by the time they reach middle age. The following specific goals have been set as targets to be reached by 1985.

(i) *Per capita income growth.*—By 1985 income *per capita* can be raised to a level of $1,500 or more. When taken in conjunction with the income redistribution goal mentioned below, this rise in incomes would be sufficient to assure every Malaysian a decent, though not luxurious, standard of living.

(ii) *Full employment.*—Another aim is to eliminate completely involuntary and wasteful unemployment and under-employment. To achieve this goal and find employment for all new entrants into the labour force, the creation of about 2.4 million jobs by 1985 will be required.

(iii) *Income redistribution.*—Without conflicting with the aim of raising the general income level, Malaysia's low-income groups will be brought closer to the general income level, so that economic development will yield the fullest possible human benefits. This will be done primarily by means of policies designed to increase their productive contributions to society. Education and the application of science to agriculture offer two promising opportunities for using public investment to bring about this objective.

(iv) *Social and community services.*—By 1985 it should be possible to offer the nation social and community services—education, health, housing, etc.—of a high standard. While it is not desirable that provision of these services take up too large a share of public investment, especially early in the 20-year period, it should be possible to provide gradual improvements in these services throughout the period and attain a very high level by the end of the 20 years.

(v) *Economic infrastructure.*—The basic infrastructure of the economy—transport, communications and utilities—will be developed considerably during the next 20 years. The coverage and quality of these economic services will be greatly improved.

(vi) *Population and family planning.*—Reduction of the birth rate is an additional goal and one which is closely related to the primary economic objective of raising income levels. If the birth rate remains at its current high level the rate of growth of national output over the next 20 years is likely to be reduced, since a larger share of the increased income provided by economic growth will have to be used to provide consumer goods for the rapidly expanding population and less will remain for investment. Moreover, the increase in *per capita income* which results from output growth will be less than the rise which will take place if a successful family planning programme is implemented. Family planning offers an opportunity to influence the birth rate and sharply accelerate the pace at which levels of welfare rise. If population continues to grow at 3% over the next 20 years the target level of *per capita* income could be no more than about $1,400 at most. Only if the rate of population growth can gradually be brought down to 2% a year will the target level of $1,500 or more be reached.

47. Several basic principles of Malaysian development strategy flow directly out of the long-term objectives listed above. The most important of these is the need for economic diversification, which includes both agricultural diversification and industrialisation. Even after 1970, present indications are that receipts from Malaysia's current leading exports will

not even come close to paying for her import needs. During the next five years, although attempts will be made wherever possible to promote the growth of exports, efforts to solve the problem will probably have to rely mainly on import substitution. Over a longer span of time large-scale development of new exports will emerge as a second feasible strategy. Indeed, in the long run import substitution and export promotion will become harmonising policies since new industries which spring up in response to local demand can later expand, if they are efficient, into export markets.

48. A second basic principle of long-range development strategy is the necessity of maintaining and even increasing the present high investment rate of the economy, while raising by as large a degree as possible the domestic savings rate. The problem of investment finance is closely related to the question of balance of payments stability. During the next five years the economy will be investing a larger amount than it will be saving, i.e. there will be excess aggregate demand. Part of this excess demand, which will be reflected in a goods and services deficit in the balance of payments, will be covered by net inflows of transfer payments, long-term loans and investments from abroad. The balance will be financed by drawing down the country's foreign exchange reserves. Since the present level of these reserves is high, a certain amount of reserve draw-down is permissible, especially during the coming five-year period. In the long run, however, there is a limit beyond which the country's foreign exchange reserves cannot be drawn down without adversely affecting the stability of the economy. Over time the economy will not be able to purchase imports in quantities which are appreciably larger than the sum of Malaysian exports plus long-term capital inflow. If the volume of investment needed to reach the growth target is to be made, then the growth of public and private consumption expenditures must be held within limits which are consistent with basic balance of payments stability. If this strategic necessity is not achieved the result will eventually be the exhaustion of the country's foreign exchange reserves. This in turn will necessitate severe import controls, a sharp drop in living standards as imported goods cease to be available and a probable decline in the rate of economic growth. Clearly, this is a state of affairs which must be avoided at all costs.

49. The solution to this problem is to devise policies which promote investment and savings. Some such policies already exist and others will be formulated in the coming years. Individuals, business firms and the public sector must all play a role in this campaign. The government will provide all possible inducements to save and invest and, when necessary, will institute fiscal and other measures to increase savings.

50. Perhaps the most valuable function of a Perspective Plan is that it indicates what must be done in the immediate future if the full benefits of development are to be enjoyed ultimately. The main point is that it is necessary to intensify efforts to diversify the economy and promote savings. This means more than just trying to promote new crops and industries and maintaining balance of payments stability during the First Malaysia Plan period. It means that the foundations of long-run success must be laid now. Three important types of action must be taken; they come under the headings of knowledge, people and institutions.

(i) All possible information relating to diversification must be collected. The volume of agricultural research must increase; also, if agriculture is to be diversified, agricultural research must be diversified first. The present heavy emphasis on rubber must be altered, preferably by increasing the amount of work done on other crops while continuing to devote as much effort as at present to rubber. In the industrial field, similar additions to the stock of knowledge are needed; market surveys, resource studies and increased understanding of the general operation of the economy are important in this area.

(ii) Aside from the building up of knowledge, another necessity is to train people to work effectively in those fields into which the economy is likely to be moving.

(iii) And thirdly, institutions which will be needed to implement the long-run development strategy should be set up as soon as possible. These include laws and organisations to promote agricultural research and training, undertake industrial research, encourage local and foreign investment and devise a rational tariff structure. Many of these institutions are already in existence or in the planning stage but the effort to provide the best possible institutional framework for development is a continuing one.

51. With the general Perspective Plan as a guide, the First Malaysia Plan has been designed to include as many projects as possible that will build Malaysia's knowledge, people and institutions into a sound base for dynamic long-term economic and social development.

CHAPTER II

Progress of the Economy in Recent Years

52. Economic development in Malaysia in recent years has taken place in a context of profound and rapid political change. The new nation of Malaysia was formed in September, 1963, and subsequently found it necessary to defend itself against political and military confrontation. The separation of Singapore from Malaysia in August, 1965, led to a further change in political boundaries. These important political developments, however, did not disrupt the steady economic progress of Malaysia.

I.—THE GROWTH OF OUTPUT AND INCOME

53. Between 1960 and 1965 the Malaysian economy* experienced a rapid rate of economic progress measured in terms of the growth of output and income. This rapid growth took place in spite of adverse external circumstances beyond Malaysia's control, which produced a very slow rate of growth in the export sector. The economy's ability to grow in spite of virtual stagnation in its traditional leading sector is testimony to its increasing resilience. Furthermore, the fact that a significant increase in *per capita* output and income was achieved while population was growing at one of the highest rates in the world is also a considerable achievement.

54. Between 1960 and 1965 real gross domestic product in Malaysia grew at an average annual rate of 6.4%. All regions of Malaysia contributed to this rapid growth of output. Production in both Sabah and Sarawak appears to have grown at over 7% annually, while output in Malaya, by far the largest component of the aggregate, grew at 6.3%. This is a very satisfactory rate of economic growth by international standards. It has been estimated that output in the non-Communist World has been growing at an average

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* This chapter presents an aggregate description and analysis of Malaysia's development over the past five years, despite the fact that Malaya, Sabah and Sarawak existed only as separate economic and political units during the first half of the period. In certain instances the review relies on data from Malaya alone, in the absence of the required information for Sabah and Sarawak.

rate of about 5% annually in recent years and at slightly less than 5% on the average in the developing nations. Malaysia's growth in output has been particularly rapid by Asian standards, especially for an economy which remains essentially agricultural in character. Among Asian countries this growth rate has probably been exceeded in recent years only by those of the more heavily industrialised economies of Taiwan and Japan.

55. The recent rapid growth of output shows a marked acceleration from the growth rate during the period of the Malayan First Five-Year Plan. Between 1955 and 1960 output in Malaya grew at only about 4% per year. The recent acceleration in the growth rate can be traced to investments in economic infrastructure and productive capacity made in the earlier period which began to bear fruit, as well as to an increased rate of domestic expenditure, particularly in the public sector.

56. The growth of output in an economy is not necessarily a good indicator of the growth of real income—the purchasing power of its citizens—because of changes in the value of exports on international markets in terms of the imports which may be bought in exchange. Income growth in Malaysia has always been sensitive to changes in the prices of Malaysian export goods, especially rubber and tin, on the world market and, to a lesser extent, to changes in the prices of Malaysian imports. Over the 1960-65 period Malaysian real income grew at 5.8% annually, which was somewhat slower than the rate of output growth. This is due to the fact that the steady decline in the price of rubber and a small decrease in round timber prices have more than offset the sharp rise in the price of tin, while the prices of Malaysian imports, on the average, have remained relatively stable. Because of the extraordinarily high rubber price in 1960, the 1960-65 experience may slightly overstate the divergence between the long-term growth rates of output and income. Nevertheless, because of the secular decline in rubber prices, Malaysian income has in general grown less rapidly than output in the period since the 1950s.

57. The rise in individual incomes within an economy is determined, of course, not simply by the growth rate of income, but by the rate of population growth as well. Population in Malaysia has been growing at 3.0% annually. As a result, *per capita* income in Malaysia grew at less than half the rate of total income during the 1960-65 period, or at a rate of 2.7%. Thus, in spite of a high rate of population growth, Malaysia managed to produce a growth of *per capita* income which is quite high by international standards, especially in comparison with other developing countries with rapidly growing populations.

58. This rise in *per capita* incomes was translated into a higher level of *per capita* private and public consumption—higher living standards—for the

Malaysian population, in spite of the large amount of resources which went into capital formation. Private and public consumption expenditure in real terms grew at about the same rate as income, or 5.9% annually. Real consumption *per capita* thus rose at 2.8% a year. There are many tangible indications of this rise in living standards. In 1960 there were on the average 82 persons for each private motor vehicle and 24 for each wireless set, whereas in 1965 there are 56 persons per private motor vehicle and 21 per wireless set. *Per capita* annual domestic electricity consumption increased from 31 to 44 kilowatt-hours, a rise of 42%.

59. The broad outlines of the changes in output and income which have been described above are presented in Table 2-1.

TABLE 2-1

MALAYSIA: GROWTH OF PRODUCT AND INCOME, 1960-65

($ millions, 1960 prices)

	1960	*1961*	*1962*	*1963*	*1964*	*1965 (preliminary)*	*Annual growth rate* (%)
Gross domestic product (at factor cost)	5,929	6,263	6,623	7,054	7,563	8,078	6.4
Gross national income* ...	5,660	5,623	6,041	6,235	6,711	7,522	5.8
Total consumption ...	5,022	5,307	5,604	5,898	6,284	6,692	5.9
Population (thousands) ...	8,108	8,363	8,631	8,896	9,137	9,411	3.0
Per capita product ...	731	748	767	792	827	858	3.3
Per capita income	698	672	699	700	734	799	2.7
Per capita consumption ...	619	634	649	662	687	711	2.8

II.—THE SOURCES OF GROWTH: THE EXPORT SECTOR

60. Malaysia is often classified as an "export economy", implying that the performance of the economy is governed in large part by the performance of the export sector. This characterization has undoubtedly been true historically for Malaysia as a whole and even today applies with particular force to the Borneo States, where production for the domestic market is less significant than in Malaya. However, the striking characteristic of the expansion of output in Malaya during the 1960-65 period is that, in contrast with other periods of expansion in recent history, rapid growth occurred in spite of a stagnant level of export earnings and a sluggish rate of

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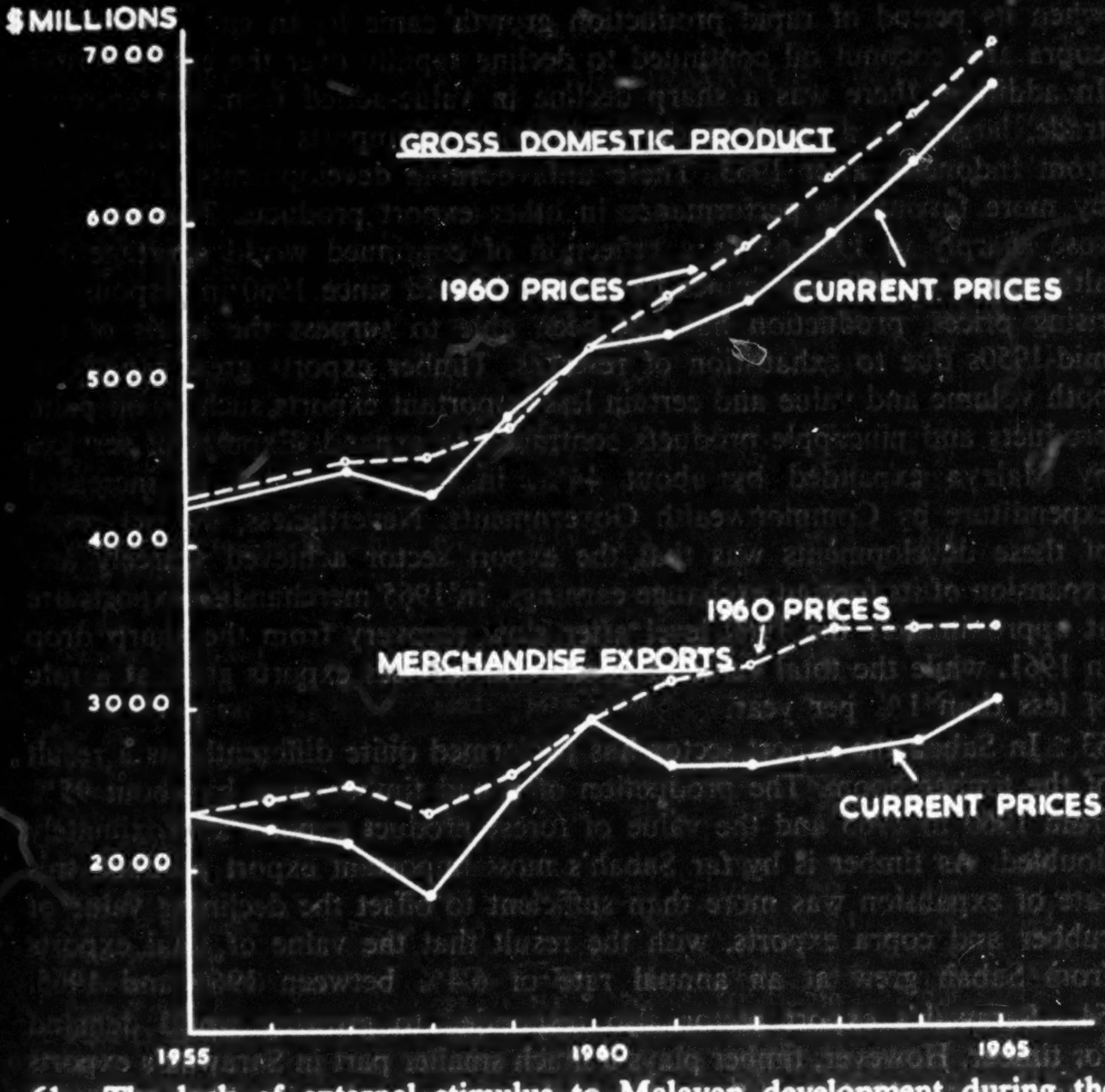
* Gross national income is the purchasing power, in 1960 prices, of the current value of the national product. It is obtained by adjusting gross domestic product in 1960 prices for changes in the terms of trade and for net factor incomes paid abroad.

expansion in export volumes. The contrast between the 1955-60 period, when the growth of total product was closely governed by export performance, and the 1960-65 period is apparent in Figure 2-1.

FIGURE 2-1

MALAYA: MERCHANDISE EXPORTS AND GROSS DOMESTIC PRODUCT, 1955-65



61. The lack of external stimulus to Malayan development during the past five years can be traced in large part to the declining price of natural rubber. This was due to increasing competition arising from the expansion of capacity for synthetic rubber production in the industrial countries and the increasing substitution of synthetic for natural rubber. The rubber price

fell from its 1960 peak of 107 cts per lb and a 1956-60 average of 95 cts to a level of about 69 cts in 1965 and a yearly average over the period 1961-65 of 74 cts. This sharp drop in price more than offset the 12% expansion in the volume of Malayan rubber exports over the period which resulted from the far-sighted replanting programme begun in the early 1950s.

62. In addition to the stagnation of earnings from rubber there were other less important causes of the slow growth of exports. Iron ore, Malaya's third largest export, failed to expand its export volume or value after 1963, when its period of rapid production growth came to an end. Exports of copra and coconut oil continued to decline rapidly over the entire period. In addition, there was a sharp decline in value-added from the entrepot trade, largely as a result of the termination of imports of rubber and tin from Indonesia after 1963. These unfavourable developments were offset by more favourable performance in other export products. The tin price rose sharply in 1964-65 as a reflection of continued world shortage but although over 400 new mines have been opened since 1960 in response to rising prices, production has not been able to surpass the levels of the mid-1950s due to exhaustion of reserves. Timber exports grew rapidly in both volume and value and certain less important exports such as oil palm products and pineapple products continued to expand. Exports of services by Malaya expanded by about 44%, in large part due to increased expenditure by Commonwealth Governments. Nevertheless, the net result of these developments was that the export sector achieved scarcely any expansion of its foreign exchange earnings. In 1965 merchandise exports are at approximately the 1960 level after slow recovery from the sharp drop in 1961, while the total value of goods and services exports grew at a rate of less than 1% per year.

63. In Sabah the export sector has performed quite differently as a result of the timber boom. The production of round timber grew by about 95% from 1960 to 1965 and the value of forest product exports approximately doubled. As timber is by far Sabah's most important export product, this rate of expansion was more than sufficient to offset the declining value of rubber and copra exports, with the result that the value of total exports from Sabah grew at an annual rate of 6.4% between 1960 and 1965.

64. Sarawak's export sector also responded to growing world demand for timber. However, timber plays a much smaller part in Sarawak's exports than in those of Sabah, as Sarawak's major export product is rubber, produced almost entirely by smallholders. Rubber export volume declined in response to the falling price, with the result that the value of rubber exports decreased by about 40% from 1960 to 1965. Thus, in spite of increases in the value of exports such as pepper and sago flour and a sharp rise in exports of

services as a result of Indonesian confrontation, Sarawak's exports as a whole in 1965 were at about the 1960 level. In sharp contrast with Sabah, therefore, the export sector in Sarawak acted as a drag upon the growth of both private incomes and government revenue.

65. These recent developments in various export products taken together have resulted in the stagnation of Malaysian merchandise exports since 1960, as shown in Table 2-2, although a slow process of recovery in total export value took place after 1961.

TABLE 2-2

MALAYSIA: EXPORT PERFORMANCE, 1960-65

	1960	*1961*	*1962*	*1963*	*1964*	*1965 (preliminary)*	*Annual growth rate (%)*
Rubber							
Volume ('000 tons)	838.8	861.1	857.2	907.5	922.1	941	2.3
Price (cts/lb)	106.5	81.2	76.9	72.6	67.6	69	
Value ($ millions)	2,000.6	1,566.9	1,476.9	1,475.7	1,395.9	1,454	− 6.2
Tin							
Volume ('000 tons, metal content)	76.6	74.2	81.4	84.6	71.1	70	− 1.8
Price ($/ton)	6,623	7,414	7,571	7,539	10,166	11,760	
Value ($ millions)	507.3	550.1	616.3	637.8	722.8	823	10.2
Round timber							
Volume ('000 tons of 50 cu ft)	1,451.6	1,815.7	2,053.3	2,551.4	2,808.5	2,924	15.0
Price ($/ton)	79.1	74.1	78.4	79.9	72.6	77	
Value ($ millions)	114.8	134.6	161.0	203.8	204.0	225	14.4
Sawn timber							
Volume ('000 tons of 50 cu ft)	401.7	317.5	332.4	379.7	502.7	619	9.0
Price ($/ton)	186	159	148	168	181	190	
Value ($ millions)	74.9	50.5	49.3	63.6	90.8	118	9.5
Iron ore							
Volume ('000 tons)	5,500.0	6,435.0	6,441.0	6,582.0	6,317.0	6,500	3.4
Price ($/ton)	25.5	25.5	25.8	26.8	25.7	25	
Value ($ millions)	140.2	163.8	166.1	176.3	162.5	163	3.1
Palm oil							
Volume ('000 tons)	96.0	93.4	105.7	114.9	124.1	132	6.6
Price ($/ton)	631	655	616	601	654	726	
Value ($ millions)	60.6	61.2	65.1	69.0	81.2	96	9.6
Palm kernels							
Volume ('000 tons)	25.2	21.2	20.3	19.5	18.1	23	− 1.8
Price ($/ton)	440	341	320	374	392	417	
Value ($ millions)	11.1	7.2	6.5	7.3	7.1	10	− 2.1
Canned pineapple							
Volume ('000 tons)	32.8	32.2	35.0	38.0	44.9	49	8.4
Price ($/ton)	793	755	766	741	750	750	
Value ($ millions)	26.1	24.3	26.8	28.2	33.7	37	7.2
Pepper							
Volume ('000 tons)	4.6	12.2	14.5	13.3	9.6	12.4	21.9
Price ($/ton)	4,174	2,525	2,034	1,962	2,031	2,030	
Value ($ millions)	19.2	30.8	29.5	26.1	19.5	25	5.4
Copra							
Volume ('000 tons)	103.7	110.2	65.3	65.8	39.1	37	−18.4
Price ($/ton)	516	418	424	465	491	608	
Value ($ millions)	53.5	46.1	27.7	30.6	19.2	22	−15.9

	1960	*1961*	*1962*	*1963*	*1964*	*1965 (preliminary)*	*Annual growth rate (%)*
Coconut oil							
Volume ('000 tons)	28.3	45.2	36.7	32.4	15.7	11	−17.2
Price ($/ton)	852	659	649	735	822	1,017	
Value ($ millions)	24.1	29.8	23.8	23.8	12.9	11	−14.5
Major merchandise exports							
Volume ($ millions, 1960 prices)	3,032	3,152	3,201	3,380	3,343	3,433	2.5
Volume (1960=100)	100	104	106	111	110	113	
Value ($ millions)	3,032	2,665	2,649	2,742	2,750	2,984	− 0.3
Value (1960=100)	100	88	87	90	91	98	
Export prices (1960=100)* ...	100	85	83	81	82	87	
Value loss from price decline post-1960 ($ millions)† ...	—	487	552	638	593	449	
Minor merchandise exports ($ millions)	590	547	587	559	617	640	1.6
Total merchandise exports ($ millions)	3,622	3,212	3,236	3,301	3,366	3,622	—
Service ("invisible") exports ($ millions)	324	365	390	412	478	493	8.8
Total exports ($ millions) ...	3,946	3,577	3,626	3,713	3,844	4,115	0.8

III.—THE SOURCES OF GROWTH: DOMESTIC DEMAND

66. Although Malaysia did not enjoy an export-oriented stimulus for growth, a rapid rise of domestic demand provided the impetus for the expansion of output. This expansion was characterised by a significant shift in the composition of output away from production for export and towards production for the domestic market. Between 1960 and 1965 exported output grew at only 2.8% annually, while output for domestic use increased at 9.2%; consequently exports fell from 55% to 48% of total output over the period. Table 2-3 summarises this recent change in the structure of the Malaysian economy.

TABLE 2-3

MALAYSIA: GROWTH OF EXPORTS AND PRODUCTION FOR DOMESTIC USE, 1960-65

($ millions, 1960 prices)

	1960	*1961*	*1962*	*1963*	*1964*	*1965 (preliminary)*	*Annual growth rate (%)*
Gross domestic product (in market prices)	6,918	7,136	7,529	8,005	8,567	9,182	5.8
Exports of goods and non-factor services	3,824	3,919	3,999	4,184	4,256	4,381	2.8
Exports as % of GDP ...	55	55	53	52	50	48	
Gross domestic product for domestic use	3,094	3,217	3,530	3,821	4,311	4,801	9.2
Domestic use as % of GDP	45	45	47	48	50	52	

67. The increasing importance of production for the domestic market can be traced in large part to the rapid rise in domestic investment between 1960 and 1965. Current investment serves a dual function for the growth

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* Implicit export price deflator obtained by dividing exports in current prices by exports in 1960 prices. It is therefore equivalent to an export price index of the Paasche type with current quantum weights.

† Exports in current prices minus exports in 1960 prices.

of output by both stimulating current production and providing the capacity for future increases in output. This rise in investment demand took place in both the private and public sectors. Private fixed capital formation, responding to the growth of the economy and the increasing potential of the domestic market, increased at about 8% annually, while total private investment rose at over 5% per year. Investment in the public sector was an even stronger stimulus for economic growth. As a result of the implementation of the development plans of Malaya, Sabah and Sarawak, public investment rose at the rapid rate of almost 28% annually. This rise in private and public investment expenditure led to a sharp increase in the proportion of gross domestic product devoted to capital formation, from about 14% in 1960 to 19% in 1965. This allocation of resources to capital formation is quite high in comparison with that of most other countries at a similar stage of development. The emphasis upon capital accumulation offers perhaps the most dramatic illustration of Malaysia's development effort. Table 2-4 presents the relationship between domestic capital formation and domestic product in Malaysia. It is interesting to note not only the increase in the Malaysian investment ratio after 1960 but also the marked contrast in Malaya between investment ratios of recent years and that of 1955, before the increased emphasis on the development effort had begun.

TABLE 2-4

MALAYSIA: CAPITAL FORMATION AND INVESTMENT RATIOS, 1955-65

($ millions, current prices)

	1955	*1960*	*1961*	*1962*	*1963*	*1964 (preliminary)*	*1965 (preliminary)*	*Annual growth rate, 1960-65 (%)*
MALAYSIA—								
Gross investment	n.a.	997	*1,121*	*1,369*	*1,444*	*1,594*	*1,715*	11.5
Private	n.a.	789	797	825	882	950	1,010	5.1
Public	n.a.	208	324	544	562	644	705	27.6
Gross domestic product (at market prices)	n.a.	*6,918*	*6,851*	*7,192*	*7,637*	*8,232*	*8,932*	5.2
Gross investment/GDP ratio ...	n.a.	.14	.16	.19	.19	.19	.19	
MALAYA—								
Gross fixed investment	*460*	*755*	*906*	*1,130*	*1,194*	n.a.	n.a.	n.a.
Planting of perennial crops ...	88	169	196	219	228	193	203	3.7
Machinery and equipment ...	124	255	309	380	360	372	408	9.9
Construction and other works...	248	331	401	531	606	817	854	n.a.
Increase in stocks	13	120	80	78	64			
Total gross investment	*473*	*875*	*986*	*1,208*	*1,258*	*1,382*	*1,465*	9.0
Private	n.a.	669	650	728	769	820	860	5.2
Public	n.a.	206	336	480	489	562	605	24.0
Gross domestic product (at market prices)	*4,992*	*6,134*	*6,102*	*6,367*	*6,782*	*7,272*	*7,841*	5.0
Gross fixed investment/GDP ratio	.09	.12	.15	.18	.18	n.a.	n.a.	
Total gross investment/GDP ratio	.09	.14	.16	.19	.19	.19	.19	

68. Estimates of the pattern of private capital formation in Malaya reveal a steady growth of investment in perennial crops (predominantly composed of the rubber replanting programme) from 1955 to 1963, followed by a decline in 1964. The declining rate of investment in rubber replanting reflects the rapid rise in the proportion of total acreage under high-yielding varieties. Residential construction exhibited a rate of investment growth slightly lower than that of the private sector as a whole. The dynamic components of private investment were non-residential construction and investment in manufacturing, forestry, transport, commerce and other service industries. The growth of private investment may be traced in part to the increased need for plant and equipment to keep pace with the general growth of the economy over the period; however, it also reflects investment undertaken in the process of import substitution. In certain sectors of the economy domestically produced goods have begun to replace those previously imported from abroad. Some evidence of this type of structural change is presented in Table 2-5, which shows the rise in the domestically produced share of consumption of a number of manufactured commodities between 1960 and 1965. The table also indicates that for some industrial products Malaya has already become a net exporter.

TABLE 2-5

MALAYA: DOMESTIC PRODUCTION AS PROPORTION OF TOTAL CONSUMPTION, SELECTED INDUSTRIAL PRODUCTS, 1960 AND 1965

	1960	*1965 (preliminary)*
Cigarettes	.60	.90
Manufactured tobacco	.69	.75
Biscuits	.93	1.08*
Soap	1.06*	1.20*
Bicycle inner tubes	.97	1.25*
Cement	.89	1.08*

69. The process of import substitution has also been illustrated by the development of petroleum refining in Malaya in recent years. Whereas in 1960 all imports of petroleum fuels entered in product form, by 1964 only 41% entered as petroleum products, while the remaining 59% entered as crude petroleum for domestic refining.

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* Net exporter.

70. Despite the emergence of import substitution in a few areas, however, it is clear that only the initial movement in this direction has been made. Malaysia's high level of consumer goods imports offers ample opportunity to accelerate the private investment effort in import-substituting industries.

71. The dramatic rise in public investment during the past five years has been a result of an accelerated effort to provide the Malaysian economy with the infrastructure of transport, power and communications and with the trained workers, productive land and efficient capital equipment necessary to make rising levels of output and income possible in the future. The allocation of public development expenditure in Malaya is summarised in Table 2-6, which compares target and estimated expenditure under the Second Five-Year Plan, 1961-65 with actual expenditure under the First Five-Year Plan, 1956-60.

72. Table 2-6 reveals two major characteristics of the development expenditure programme in Malaya under the Second Five-Year Plan. First, investment was concentrated in projects which provide a firmer infrastructure for the economy, such as transport and communications, or which will improve the long-run productivity of resources, such as education, drainage and irrigation, rubber replanting and land development. The public investment programme thus concentrated upon laying the foundation for a steady long-run increase in economic welfare. Second, the public investment programme placed a strong emphasis on rural development. The substantial increases in expenditure on drainage and irrigation, land development, rural industry and certain social services, such as schools and rural health centres, will have direct effects in raising the productivity of resources in the rural economy. In addition, much of the investment in roads and bridges, utilities and community facilities will provide benefits for the rural population. The purpose of the emphasis on rural development in the public investment programme has been to provide a more balanced distribution of economic benefits and opportunities between the rural and urban sectors of the economy.

73. It must be emphasised, however, that the welfare of the rural population will be improved not only by rural development projects but also by public and private investment which stimulates growth and employment opportunities in the urban areas of the economy.

Table 2-6

MALAYA: PUBLIC DEVELOPMENT EXPENDITURE, 1956-65

	First Five-Year Plan, 1956-60		*Second Five-Year Plan, 1961-65*				
	Actual Expenditure		*Original Targets*		*Estimated Expenditure*		*% Fulfilment*
	$ millions	*% of total**	*$ millions*	*% of total**	*$ millions*	*% of total**	
Agriculture	*227.5*	*23.6*	*545.3*	*26.5*	*467.9*	*20.0*	*85.9*
Rubber Replanting	153.4	15.9	165.0	8.0	130.9	5.6	79.3
Drainage and Irrigation	38.3	4.0	100.0	4.9	108.5	4.6	108.5
Land Development	16.7	1.7	191.0	9.3	129.8	5.5	68.0
Animal Husbandry	1.7	0.2	10.0	0.5	11.3	0.5	113.0
Forestry	2.2	0.2	5.0	0.2	6.6	0.3	132.0
Fisheries	2.4	0.2	7.2	0.4	2.5	0.1	34.7
Other	12.8	1.3	67.1	3.3	78.3	3.4	122.8
Transport	*206.5*	*21.4*	*362.0*	*17.6*	*524.9*	*22.4*	*145.0*
Roads and Bridges	95.2	9.9	190.0	9.2	353.4	15.1	186.0
Railways	71.4	7.4	65.0	3.2	50.9	2.2	78.3
Ports	37.0	3.8	55.0	2.7	61.0	2.6	110.9
Civil Aviation	2.9	0.3	52.0	2.5	59.6	2.5	114.6
P.W.D. Plant and Equipment	*23.6*	*2.4*	*68.7*	*3.3*	*63.6*	*2.7*	*92.6*
Communications	*51.6*	*5.4*	*72.9*	*3.5*	*112.8*	*4.8*	*154.7*
Telecommunications	47.4	4.9	50.0	2.4	84.9	3.6	169.8
Broadcasting	2.7	0.3	5.0	0.2	23.0	1.0	460.0
Posts	1.5	0.2	17.9	0.9	4.9	0.2	27.4
Utilities	*238.6*	*24.8*	*402.0*	*19.5*	*535.4*	*22.8*	*133.2*
Electricity	142.0	14.7	254.0	12.3	352.5	15.0	138.8
Water Supply	80.6	8.4	140.0	6.8	174.9	7.5	124.9
Sewerage	16.0	1.7	8.0	0.4	8.0	0.3	100.0

Industry	*12.1*	*1.3*	*27.0*	*1.3*	*59.1*	*2.5*	*218.9*
Site Development	11.1	1.2	7.5	0.4	5.7	0.2	76.0
Other	1.0	0.1	9.5	0.5	43.4	1.9	456.8
Rural Industry	n.a.	—	10.0	0.5	10.0	0.4	100.0
Social Services	*138.8*	*14.4*	*491.0*	*23.9*	*413.6*	*17.6*	*84.2*
Education	60.9	6.3	260.0	12.6	236.5	10.1	91.0
Health	12.7	1.3	145.0	7.1	101.9	4.3	70.3
Social Welfare	n.a.	—	6.0	0.3	5.8	0.2	96.7
Housing	65.2	6.8	80.0	3.9	69.4	3.0	86.8
General Government	*65.0*	*6.7*	*88.1*	*4.3*	*167.1*	*7.1*	*189.7*
Municipal Development	14.2	1.5	16.7	0.8	35.0	1.5	209.6
Government Buildings	48.8	5.1	38.8	1.9	41.8	1.8	107.7
Miscellaneous	2.0	0.2	32.6	1.6	90.3	3.9	277.0
Total Non-Security	*964.0*	*100.0*	*2,057.0*	*100.0*	*2,344.4*	*100.0*	*114.0*
Security	*43.0*		*93.0*		*307.3*		*330.0*
Defence	35.0		60.0		244.7		407.2
Police	8.0		33.0		62.6		189.7
TOTAL	*1,007.0*		*2,150.0*		*2,651.7*		*123.3*

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* % of Total Non-Security expenditure only.

74. Public investment in both Sabah and Sarawak was concentrated upon transport and communications, as these States do not yet have the relatively developed economic infrastructure which exists in Malaya. Educational investment was also heavy in these two States, as the level of educational opportunity in the past has been low and an increase in literacy and skills will prove necessary for further economic development to take place.

75. An important determinant of Malaysian economic growth, in addition to the increasing levels of private and public investment, was the steady rise in public consumption expenditure in recent years. This component of expenditure rose at an average annual rate of 12.5% during 1961-65. To a large extent this was an inevitable corollary of the large capital expenditure on development programmes; higher capital expenditure on rural development, transport and education in particular has required an increase in current operating expenditure for the projects involved. In addition, however, current expenditure on government services has risen, particularly as a result of the increasing costs of defence and internal security made necessary by Indonesian confrontation.

76. As might be expected during a period in which an increasing proportion of expenditure in the economy was being channelled into capital formation, the growth of real private consumption, at an annual rate of 4.3%, was somewhat lower than that of national product. Nevertheless, this rate of growth was sufficient to allow private and public consumption *per capita* to grow at an average annual rate of 2.8% between 1960 and 1965. Thus living standards in the economy continued to rise despite the increased emphasis upon the use of economic resources to build up the potential for long-term growth.

IV.—FINANCING ECONOMIC GROWTH

77. When measured in current market prices, public and private consumption expenditure grew at an annual rate of 6.4% between 1960 and 1965. Meanwhile total investment expenditure was rising at the impressive rate of 11.5% annually. Thus total expenditure in the economy rose more rapidly than gross national product, which expanded at 5.6% per year. This necessitated a shift in the balance of payments on goods and services account such that a change in the net flow of goods and services between Malaysia and the rest of the world would provide the extra resources required by the rapid growth in total expenditure.

78. Malaysia has been in a favourable position to allow such a shift in the external balance to take place. In 1960 Malaysian output exceeded total expenditure, so that there existed a considerable surplus on goods and services account. Exports grew extremely slowly during the period 1960-65;

the value of imports, however, grew at the rate of 3.5% because of the increasing food requirements of the growing population and, especially, the rapidly growing requirements for foreign-produced capital goods for public and private capital formation. As a result, total expenditure rose to become approximately equal to output in 1963-64 and the initial surplus was eliminated, although a small surplus has appeared again in 1965. This tendency towards diminishing surpluses is a natural one for a developing economy engaged in a vigorous development programme. Previous to this change, Malaysia was in the anomalous position, for a developing nation, of being a substantial net creditor in the world economy, in effect lending her sizeable trade surpluses abroad. Now, however, Malaysia is shifting away from the position of a net creditor towards that of a net borrower. This shift characterised most of the developed economies during the early period of their own development. These recent trends in national expenditure and product and the accompanying changes in savings and the foreign balance are shown in Table 2-7.

TABLE 2-7

MALAYSIA: EXPENDITURE AND SAVINGS, 1960-65

($ millions, current prices)

	1960	*1961*	*1962*	*1963*	*1964*	*1965 (preliminary)*	*Annual growth rate* (%)
Consumption expenditure ...	5,022	5,308	5,618	6,052	6,439	6,855	6.4
Private	*4,141*	*4,357*	*4,586*	*4,864*	*5,074*	*5,267*	4.9
Public	*881*	*951*	*1,032*	*1,188*	*1,365*	*1,588*	12.5
Investment expenditure ...	997	1,121	1,369	1,444	1,594	1,715	11.5
Private	*789*	*797*	*825*	*882*	*950*	*1,010*	5.1
Public	*208*	*324*	*544*	*562*	*644*	*705*	27.6
Gross national expenditure	6,019	6,429	6,987	7,496	8,033	8,570	7.3
Foreign balance on goods and services	630	217	57	−16	12	159	
Gross national product ...	6,649	6,646	7,044	7,480	8,045	8,729	5.6
Less: Net foreign transfers...	215	195	204	214	135	126	
Less: Consumption expenditure	5,022	5,308	5,618	6,052	6,439	6,855	
Equals: Gross domestic savings	1,412	1,143	1,222	1,214	1,471	1,748	4.1
Savings/GNP ratio	.21	.17	.17	.16	.18	.20	

79. The rapid mobilisation of resources for the development programme, with the shift in the resource balance just described, has had important counterparts in the development of the balance of payments and public finance.

80. The declining surplus on goods and services, combined with the continuing high level of private transfer payments abroad, has led to a reversal in the balance of payments on current account from a sizeable surplus in 1960 to a deficit for the years 1964-65 taken together. There has been a substantial increase in the net inflow of private long-term capital over the period for investment both in the agricultural sector and in industrialisation. Official loans from governments and international organisations and borrowings in markets abroad have also increased. The growth in all these sources of external finance, however, has not been sufficient to match the change in the current account balance, with the result that a moderate draw-down of total foreign assets was required after 1962. Table 2-8 summarises the balance of payments position for Malaysia over the period.

TABLE 2-8

MALAYSIA: BALANCE OF PAYMENTS, 1960-65

($ millions)

	1960	*1961*	*1962*	*1963*	*1964*	*1965 (preliminary)*
Current account						
Exports f.o.b.	3,622	3,212	3,236	3,301	3,366	3,624
Imports f.o.b.	2,613	2,642	2,888	3,016	3,066	3,155
Merchandise balance	1,009	570	348	285	300	469
Invisibles (net)	−388	−353	−291	−301	−287	−310
Transfers (net)	−197	−195	−204	−214	−135	−126
Current account balance ...	+424	+ 22	−147	−230	−122	+ 33
Capital account						
Long-term capital (net) ...	n.a.	212	293	404	269	367
Private	—	*180*	*235*	*320*	*250*	*260*
Public	—	*32*	*58*	*84*	*19*	*107*
Short-term capital (including errors and omissions) (net)	n.a.	−142	− 98	−252	−268	−400
Net use of foreign assets* ...	—	− 92	− 48	+ 78	+121	
Capital account balance ...	−424	− 22	+147	+230	+122	− 33

81. The financial position of the public sector, like that of the balance of payments, moved from one of substantial financial resources to increased financial stringency under the impact of the development programmes. In 1960 the public sector showed a considerable surplus on current account and

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* — denotes accumulation and + denotes draw-down.

the level of development expenditure was not large enough to exhaust this surplus. During the course of 1961-65 recurrent expenditure grew rapidly. Government revenues, however, remained heavily dependent upon the taxation of the export sector, the income of which did not expand significantly during the period. As a result, revenues did not keep pace with current expenditures and the substantial surplus on current account which existed in 1960 was steadily reduced in size. When combined with the extremely rapid growth in development expenditure, this has led to a growing public sector deficit, which has been financed largely by continued domestic borrowing and by the liquidation of part of the government's accumulated assets. In the face of stagnant export earnings, it has been this increasing deficit in the public sector which has provided the main stimulus to the growth of aggregate demand in recent years. These major trends in public sector finance are shown in Table 2-9.

TABLE 2-9

MALAYSIA: CONSOLIDATED PUBLIC SECTOR FINANCE, 1960-65

($ millions)

	1960	*1961*	*1962*	*1963*	*1964*	*1965 (preliminary)*	*Cumulative total, 1961-65*
Government current revenue	1,304	1,356	1,418	1,500	1,574	1,671	7,519
Government recurrent expenditure	973	1,033	1,120	1,253	1,420	1,626	6,452
Government current surplus	331	323	298	247	154	45	1,067
Surplus of public corporations	31	33	33	33	36	49	184
Public sector current surplus	362	356	331	280	190	94	1,251
Development expenditure*	244	401	606	662	661	779	3,109
Overall surplus (+) or deficit (−)	+118	− 45	−275	−382	−471	−685	−1,858
Sources of financing—							
Net domestic borrowing†	196	148	160	236	183	311	1,038
Net foreign borrowing	52	28	51	91	16	119	305
Foreign grants	51	45	28	26	66	90	255
Use of accumulated assets‡	−320	−114	+ 55	+ 98	+226	+ 51	+ 316
Other	− 97	− 62	− 19	− 69	− 20	114	− 56
TOTAL	−118	+ 45	+275	+382	+471	+685	+1,858

82. This concludes the analysis of the important changes which have taken place in the major economic aggregates for Malaysia as a whole. However, inasmuch as important differences exist between the different regions of Malaysia, it is important to examine the major developments in each of these regions during the last five years.

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* Includes security capital expenditure.

† Includes increase in assets of the Employees Provident Fund.

‡ − denotes accumulation and + denotes draw-down.

V.—PLANNED OBJECTIVES AND PROGRESS IN MALAYA

83. In Malaya substantial economic progress occurred in both the public and private sectors of the economy, as public expenditure replaced external demand as the major expansionary force. Domestic capital formation advanced at a very rapid rate. The private investment target of $2,900 million set in the Second Five-Year Plan was achieved and the initial public development expenditure target of $2,150 million was considerably exceeded, despite the fact that these targets were far higher than the levels achieved under the First Five-Year Plan. It now appears that public development expenditure under the Second Five-Year Plan will reach a figure of approximately $2,650 million.

84. The progress of recent years can be assessed in terms of the declared objectives of the Second Five-Year Plan. These were:

(i) "*To provide facilities and opportunities for the rural population to improve its levels of economic and social well-being.*"

The high levels of investment on projects specifically designed to raise the productivity and incomes of the rural population have been noted above. Many of the physical results of this investment have materialised: the completion of a large number of irrigation projects and drainage schemes raised the padi acreage capable of being double-cropped from 38,000 acres in 1960 to about 193,000 acres in 1965, while total planted acreage increased from 941,000 to 980,000 acres. An estimated 760,000 acres of smallholder rubber had been planted and replanted with high-yielding varieties, bringing the acreage under high-yielding varieties to 890,000 acres or about 50% of the total smallholder acreage. The number of rural health centres rose from 8 to 39, the number of sub-centres from 8 to 140 and mid-wives clinics from 26 to 671 during the Plan period. Rural school enrolments also expanded rapidly. Despite such gains, however, it must be recognised that the most significant benefits to the rural population from these recent investments will accrue only in the future. Just as the returns from rubber replanting do not begin to be realised for five to seven years, the increases in productivity and income for rural youth who receive better education and medical care lie in the future, although the personal benefits of better health and improved literacy are received immediately.

85. While the Second Five-Year Plan achieved important results for the rural population, it also encountered difficulties in the implementation of some programmes, which caused certain activities to fall short of expectations and Plan targets. Despite the substantial progress made by the Federal Land Development Authority in opening up 145,000 acres of new land, not as much land was opened for new settlement as was originally envisaged. Some other land development schemes under the authority of state governments encountered similar difficulties. As these difficulties are resolved and

as new administrative skills in the implementation of rural development programmes are acquired, the long-term goal of increased well-being for the rural population will come closer to realisation.

86. (ii) "*To provide employment to the country's population of working age, which is likely to increase by about 15 per cent during the Plan period.*"

Present estimates suggest that employment increased at approximately the planned rate in 1961-65, although, as indicated in Table 2-10, the distribution of employment is somewhat different from that which was projected in 1960. There appears to be a slightly lower level of employment than projected in high-productivity sectors such as construction, transport and utilities, mining and manufacturing and estate agriculture, whereas employment in government and private services appears to be in excess of that planned. Rapid productivity gains in estate agriculture and perhaps in mining and manufacturing may have held down the rate of labour absorption in these sectors, while increasing governmental activity in defence, development activities and general services absorbed more manpower than anticipated. Despite this increase in total employment in line with the Plan objective, unemployment in Malaya remains at about 6% of the labour force and the high proportion of young urban workers in this group constitutes one of Malaya's most urgent problems.

TABLE 2-10

MALAYA: EMPLOYMENT GROWTH, 1960-65

(thousands)

		1965		
Sector	*1960*	*Target**	*Actual (preliminary)*	*Annual growth rate* (%)
Agriculture	1,277	1,417	1,388	1.7
Mining and manufacturing	196	235	234	3.6
Construction, transport and utilities	150	219	210	7.0
Government services	200	236	257	5.1
Other trade and services	351	393	429	4.1
Total Employment	2,174	2,500	2,518	3.0
Unemployed	138	—	160	
Total labour force	2,312	—	2,678	
Unemployment	6.0%	—	6.0%	

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* The 1965 targets listed in the Second Five-Year Plan have been re-calculated on the basis of the original sectoral percentage growth targets relative to revised base estimates of 1960 employment.

87. (iii) "*To raise the per capita output of the economy and to protect per capita living standards against the adverse effects of a possible decline in rubber prices.*"

As indicated in Table 2-1, *per capita* output grew from $731 in 1960 to $858 in 1965, an annual growth rate of 3.3%. While consumption *per capita* grew less rapidly at 2.8% per annum due to the increased proportion of resources devoted to capital formation, the economy was not only able to protect living standards but in fact raised the level of *per capita* consumption by almost 15% over the period.

88. (iv) "*To widen the variety of Malayan production, emphasising the development of other suitable agricultural products in addition to rubber, and giving every reasonable encouragement to industrial expansion which in the long-term offers perhaps the greatest promise for sustained development and diversification of the Federation economy.*"

Some signs of diversification in Malaya have been evident. Output of forest products, both for domestic use and export, grew rapidly. Livestock products, fish and palm oil and kernels all increased their contribution to total agricultural production, although the growth of rice production lagged behind that of total agricultural output. These recent trends in the agricultural sector are discussed in greater detail in Chapter VII.

89. Given the long life-span of past investment in rubber and the continued profitability of high-yielding rubber, however, a rapid change in the structure of the agricultural sector is not a feasible objective. To some extent diversification has of necessity been subordinated to the conflicting objective of increased productivity in the rubber industry, as higher levels of rubber production have emerged from the replanting programme. Diversification into other crops such as oil palm has also been hindered by limitations placed upon land alienation. In other areas the basic agricultural research preliminary to the cultivation of new crops has yet to be undertaken. As a result, the predominant role of rubber in the agricultural sector has not substantially changed; rubber continues to represent about 63% of total agricultural output.

90. The diversification of the economy as a whole, as seen in changes in the composition of physical output among industries, was also relatively small, although the contribution of the agricultural sector fell from 38% to 34% of total output and that of rubber from 24% to 21%. The sectoral contributions to output are shown in Table 2-11. The construction industry expanded most rapidly, growing at about 18% annually under the impact of the public expenditure programme. Other sectors which grew more rapidly than the average were government services; banking, insurance

and real estate services; and electricity, water and sanitary services. The fishing industry also expanded its share in the national product. Manufacturing output, excluding rubber processing, grew at almost 12% annually. While some evidence of structural change in the Malayan economy is therefore visible, the dynamic non-agricultural sectors remain a small proportion of the total economy and thus substantial transformation of the economic structure will require their continued growth for a long period.

TABLE 2-11

MALAYA: GROSS DOMESTIC PRODUCT BY INDUSTRY OF ORIGIN, 1960 AND 1965

(in 1960 prices)

	1960		*1965 (preliminary)*		
	$ millions	*% of total*	*$ millions*	*% of total*	*Annual growth rate (%)*
Agriculture, forestry and fishing	1,976	38	2,406	34	4.0
Rubber	*1,233*	*24*	*1,504*	*21*	*4.0*
Agriculture and livestock ...	*568*	*11*	*647*	*9*	*2.6*
Forestry	*85*	*2*	*125*	*2*	*8.0*
Fishing	*90*	*2*	*130*	*2*	*7.5*
Mining and quarrying	306	6	382	5	4.5
Manufacturing	453	9	766	11	11.1
Construction	158	3	360	5	17.9
Electricity, water and sanitary services	70	1	123	2	11.9
Transport, storage and communications	189	4	247	3	5.5
Wholesale and retail trade ...	817	16	1,100	16	6.1
Banking, insurance and real estate	71	1	116	2	10.3
Ownership of dwellings	245	5	305	4	4.5
Public administration and defence	339	6	425	6	4.6
Other services	596	11	853	12	7.4
Gross domestic product at factor cost	5,220	100	7,083	100	6.3

91. (v) "*Finally, while stressing the importance of development which will meet production and employment requirements, to improve and expand the social services needed to provide educational opportunities for the rapidly growing school-age population, to extend the public health services over a wider coverage of the rural as well as urban population, to assist in large measure in the provision of housing and to provide more adequately for rural and urban utilities.*"

The expansion of social services under the Second Five-Year Plan was extremely rapid, as development expenditure in this area totalled over $500 million, more than three times the 1956-60 level. Educational expansion resulted in an increase in classrooms and teachers of more than 35%. The rapid development of rural health centres and mid-wives clinics and a considerable expansion of hospital capacity brought further improvement in health facilities, especially in the rural areas. The number of rooms available through public housing schemes more than tripled between 1960 and 1965, helping to meet the heavy demand for housing created by the rapid increase in urban population. Thus Malaya, which has enjoyed a high standard of social services in the past, expanded these services further and made their benefits increasingly available to the rural as well as the urban population.

92. In general, then, the Malayan Second Five-Year Plan succeeded in meeting its objectives. Output and income grew more rapidly than had been planned and employment increased at about the projected rate. Public services were expanded and distributed more equitably among the rural and urban populations. The initial steps towards diversification of the economy and improvement of productivity and incomes in the rural sector were taken, although these objectives must be viewed as part of a long-term process of change and growth in the economy.

VI.—ECONOMIC PROGRESS IN THE BORNEO STATES

93. The Sabah Development Plan for 1959-64 was simply a programme of public investment expenditure, rather than a comprehensive development plan with explicit economic targets. It emphasized the development of infrastructure, in order to improve transport and communication services linking Sabah's scattered population centres. Heavy investment was also made in education to deal with the rapid increase in the school-age population and to broaden the coverage of the educational system.

94. Estimates for recent years suggest that output in Sabah has been increasing at a rate of over 7% annually, the highest rate of growth among the regions of Malaysia. However, this development has been due in large part to the very rapid expansion of round timber production for export and the growth of the economy has been somewhat imbalanced. Rice production appears to have grown rather slowly since 1960, averaging 2.8% annually. Rubber output has virtually stagnated as a result of previous delays in replanting and labour shortage on the estates, although the increased attention given to new planting and replanting in recent years should result in rapid growth in the immediate future.

95. Sabah's economic growth has also been stimulated by investment in construction, both private and public, which has been financed largely by revenues from timber proceeds. Considerable investment has also been made in the agricultural sector; in addition to the rapid expansion of rubber acreage, there has been extensive planting of oil palm.

96. The impact of the public investment programme upon Sabah's infrastructure is evident. Road mileage grew from about 770 to 1,400 between 1960 and 1965 and electricity generating capacity rose from 7,849 kilowatts (kw) to about 18,700 kw in the same period. In the field of education, school enrolments rose from 51,000 to more than 80,000 in those years. Other significant improvements occurred in port facilities, medical and health services and water supplies, all of which are required to equip Sabah with an economic base adequate for the emergence of a modern economy.

97. The main limitation upon Sabah's rate of development, other than the lack of an integrated economic infrastructure, has been the appearance in recent years of an acute labour shortage. Most of Sabah is underpopulated and the availability of labour is further limited by the youthful distribution of the population. The needs for labour in forestry and estate agriculture were formerly met by immigration from Indonesia and the Philippines but political developments in the last two years have impeded this inflow of labour. The shortage of skilled labour for building construction and engineering has been particularly acute. These shortages have clearly slowed down the pace of development and led to the bidding up of wages. The wage increases, coupled with the rapid growth of earnings from the timber boom, have introduced an element of inflation into Sabah's monetised economy which may impede the development process. Public officials are presently examining policies for the alleviation of the labour shortage and the inflationary pressures which it generates.

98. Sarawak's Development Plan for 1959-63 was also essentially a public investment programme directed at the development of infrastructure, mostly road building, and the improvement of productivity in the backward agricultural sector.

99. Economic progress in Sarawak has been distributed quite unevenly among its various sectors. Timber production has grown at about 9% annually but timber is not as important to Sarawak's economy as to Sabah's. Progress in other parts of the agricultural sector has been much less satisfactory. The fundamental agricultural problem is the inefficient system of shifting cultivation, which is widely practised. Rubber output has stagnated in recent years, as the predominantly smallholder industry has failed to replant with high-yielding varieties, and may have contracted

output in response to the downward trend in rubber prices. Rice production has also nearly stagnated as a result of continued low yields from shifting cultivation.

100. Growth in the non-agricultural sector in Sarawak appears to have been considerably more rapid than in agriculture. The stimulus for this growth was provided by a rapid expansion of government current and capital expenditure and private investment expenditure. Military activities have also stimulated construction and some forms of local trade and other services, although there has been some interference with production and commerce in limited areas.

101. Some of the results of the public investment programme are currently appearing. Road mileage expanded from 603 to 970 during 1961-65 and electric generating capacity rose from 16,400 kw to about 26,000 kw. The Sarawak Government has also invested heavily in agricultural programmes designed to promote an efficient system of settled cultivation and to encourage rubber replanting. However, the large public investments in the agricultural sector, the transformation of which is the crucial requirement for Sarawak's future development, have not as yet had a marked effect upon output and productivity.

V.—CONCLUSIONS

102. In summary, Malaysia has experienced a period of rapid growth of output, income and employment in the last five years and this progress has been shared among its different regions. For the economy as a whole this growth may be attributed largely to the growth of domestic demand for output, since export demand as a whole has been sluggish, although timber exports have had a pronounced effect upon development in Sabah. This period of rapid growth has been marked by a substantial rise in the investment rate, especially in the public sector. While stimulating current economic growth, this investment has concurrently broadened and strengthened the economic base for future development. Despite the increased emphasis on capital formation and the rapid rise in population, *per capita* income in Malaysia has continued to increase and efforts have been made to bring about a more equitable distribution of both private and public consumption among different sections of the population. This period of rapid growth has produced some evidence of structural change in the economy but diversification has not as yet substantially reduced the heavy dependence of the economy upon agriculture and, in particular, upon the production of natural rubber.

CHAPTER III

The Context and Framework of the First Malaysia Plan

I.—THE PROSPECTIVE ECONOMIC SETTING, 1966-70

103. The pace at which the economy develops during the period of the First Malaysia Plan will depend partly on the success of the Plan in achieving its aims and partly upon a number of historical, natural and political factors which are not within the immediate control of development policy. Some of these factors, such as the economy's natural resource base, are given and unalterable. Others, which are of a political nature, can be altered but only by means other than an economic and social development plan. Still others, like population growth and the level of Malaysian exports, can be changed through vigorous execution of sound development policies but only over a considerable period of time; for the next five years they are essentially predetermined. What the government can and will do under the First Malaysia Plan is to create the most favourable environment possible for accelerated development by doing all it can to stimulate investment and encourage the best possible use of Malaysia's human and natural resources.

104. The magnitude of the problems of population growth and the slow rate of expansion in the value of exports with which the First Malaysia Plan has to contend and which it will attempt to alleviate is discussed in the following paragraphs.

POPULATION AND LABOUR FORCE

105. The rapid growth of Malaysia's population in recent years is likely to continue at approximately its present rate during the period of the First Malaysia Plan. In Malaya both birth and death rates have been falling since the mid-1950s. While the rate of natural increase has declined from 3.5% ten years ago to 3.0% at present, it remains one of the highest in the world. Malaysians are beginning to limit the size of their families so as to make better provision for their health and welfare. At the same time, rising income levels and improved public health standards have cut the nation's death rate to a figure which is comparable with death rates in most developed countries. Death rates are so low that they are unlikely to fall further. Thus

as the idea of family planning gains popularity and birth rates slowly decline the rate of natural increase will gradually decrease. By 1970 it should have fallen from the present 3.0% to 2.8% or 2.9%.

106. Population data for the Borneo States are still unreliable, so it is difficult to indicate what trends may be expected. Rates of natural increase have apparently been about 2.5-2.7% in Sabah in recent years and perhaps somewhat less in Sarawak. In recent years health services have been improving in the Borneo States and this is leading to falling death rates and accelerated natural population growth.

107. During the period 1957-62 a considerable volume of net immigration added to the growth of population in Malaya and Sabah. In 1963 and 1964, however, net emigration seems to have developed, with the result that Malaysia's overall rate of population growth apparently dropped below 3% in 1964. Although it is a difficult factor to gauge, international migration is unlikely to be a major element in Malaysian population growth during the next five years. The main source of population growth will probably be natural increase represented by an excess of births over deaths.

108. Taking all these factors into account, it appears that the population of Malaysia will grow at about 3% per annum during the next five years. If net emigration continues or if birth rates in Malaya fall even a little more rapidly than is anticipated, population might grow at slightly less than 3%, say 2.8% or 2.9%. At a growth rate of 3.0%, the population will increase by one and a half million from 9.4 million in 1965 to 10.9 million by mid-1970. Such rapid population growth will present a serious challenge to the effort to provide rising income levels and improved public services.

TABLE 3-1

MALAYSIA: POPULATION AND LABOUR FORCE, 1965 AND 1970

(thousands)

	1965	*1970*	*Annual growth rate (%)*
Population			
Malaya	8,052	... 9,334	... 3.0
Sabah	520	... 613	... 3.3
Sarawak	839	... 963	... 2.8
MALAYSIA ...	9,411	... 10,910	... 3.0
Labour force			
Malaya	2,678	... 3,055	... 2.7
Sabah	214	... 250	... 3.2
Sarawak	334	... 382	... 2.7
MALAYSIA ...	3,226	... 3,687	... 2.7

109. As Malaysia's population is relatively youthful and is receiving more and more years of education, the number of persons seeking employment will not grow quite so rapidly in 1966-70 as total population. Nevertheless, there will be some 460,000 potential workers added to the labour force during the period of the Plan. The labour force will rise from 3.2 million in 1965 to about 3.7 million by 1970. National economic development will thus be needed to ensure that work is available for all these new additions to the nation's manpower supply.

EXPORT FORECASTS

110. Malaysia's present wealth is very largely due to the growth of its exports, particularly exports of the two commodities of which the country is the world's leading producer: natural rubber and tin. The development of efficient modern industries to produce these two commodities and sell them on the world market has significantly contributed to making the average level of income in Malaysia today two to three times as high as the level in most other Asian countries. It is thus important to note the implications of the fact that combined export earnings from tin and rubber are unlikely to rise during the next five years. Along with the rapid population growth just discussed, this problem poses one of the most serious threats to further growth in income *per capita*.

111. Malaysia has the world's most efficient natural rubber industry. Because of the success of the government's replanting programme the industry in Malaya in particular is far better equipped to withstand the pressures of competition from synthetic rubber than are natural rubber industries in other countries. Still, it is necessary to face the fact that synthetic rubber technology will continue to be improved and production of synthetic rubber will rise, depressing the price of natural rubber on the world market. It is estimated that the average export price of Malaysian rubber will fall from nearly 70 cts per lb in 1965 to about 55 cts by 1970. During the same period, Malaysian production will rise rapidly as more and more replanted acreage comes into bearing. By 1970 production should be over a million and a quarter tons, compared with 913,000 tons in 1965. The decline in the world price, however, will mean that Malaysian exporters will earn only $130 million more on this greatly increased volume. On the average, a one-cent fall in the world rubber price during the First Malaysia Plan period will cost Malaysia $25 million a year in export receipts.

112. The problem of the tin industry is quite a different one. Tin prices are favourable at present and are expected to remain at or above their present level over the next few years. By raising their output and taking full advantage of these favourable prices, Malaysian producers have been able to enjoy an outstanding year in 1965. However, known tin reserves are

gradually being depleted and even if prices remain high it will become increasingly difficult to maintain production at the current level. Through prospecting in Malay reservation areas and exploitation of the possibilities of off-shore mining it may be possible to maintain production in the long run, although a gradual decline in output seems unavoidable over the next few years. Unless tin prices rise above their present level, export receipts from tin will fall, perhaps to a level $150 million lower in 1970 than in 1965. Such a decline would completely offset the gain in export receipts resulting from higher rubber production, leaving total receipts from the two most important exports essentially unchanged.

113. Some less important exports offer more promising growth prospects during the next five years. World demand for timber is likely to outstrip supply and prices should rise. Malaysian production will increase, though not so rapidly as in the last five years, and export receipts will grow. By moving increasingly into sawmilling and the further processing of round timber, the nation will be able to increase still further the value added by this industry. Palm oil and kernels continue to offer the best immediate alternative to rubber and many estates will have oil palm acreage coming into full bearing during the next five years. Production should almost double, although a decline in export prices from their present high levels may keep export receipts from rising as rapidly as output. Canned pineapple is another export which has favourable growth prospects. Pineapple production can be stepped up just as fast as foreign markets can be developed for the canned fruit. Among "invisible" or service exports the best growth prospects lie in the field of tourism. Increased international travel will bring more foreign travellers to Malaysia each year and every attempt will be made to stimulate this flow by the development of an efficient and attractive tourist industry. Finally, a number of goods and services which do not rank high among Malaysia's exports at present should experience rapid growth in 1966-70. It is particularly hoped that exports of industrial products, which are very small at present, will increase rapidly.

114. The overall prospect for export growth under the First Malaysia Plan, however, is not bright. Detailed projections are presented in Table 3-2. These projections suggest that gross export receipts are likely to rise by no more than $120 million from 1965 to 1970. In part, this slow growth reflects the fact that 1965 has been an excellent year for exports but even on a 1964-70 basis the annual growth rate is only 1.6%. Falling prices for rubber, iron ore, oil palm products and coconut products, as well as declining production of tin and iron ore, are expected to be the main forces depressing export receipts. These negative forces are likely to be barely offset by the positive factors: rising timber prices and increasing production of rubber,

timber, oil palm products, pineapple and a host of minor export commodities. With such slow growth of export receipts in prospect the necessity of vigorous implementation of the import substitution growth strategy becomes all the more imperative.

TABLE 3-2

MALAYSIA: PROJECTED EXPORTS, 1965 AND 1970

	1965	*1970*	*Annual growth rate* (%)
Rubber			
Volume ('000 tons)	941	1,286	6.0
Price (cts/lb)	69	55	
Value ($ millions)	1,454	1,584	1.7
Tin			
Volume ('000 tons; metal content)	70	57	− 4.0
Price ($/ton)	11,760	11,760	
Value ($ millions)	823	670	− 4.0
Round timber			
Volume ('000 tons of 50 cu ft)	2,924	2,839	− 0.4
Price ($/ton)	77	97	
Value ($ millions)	225	277	4.2
Sawn timber			
Volume ('000 tons of 50 cu ft)	619	696	2.4
Price ($/ton)	190	240	
Value ($ millions)	118	167	7.2
Iron ore			
Volume ('000 tons)	6,500	3,000	−14.3
Price ($/ton)	25	20	
Value ($ millions)	163	60	−18.1
Palm oil			
Volume ('000 tons)	132	255	14.1
Price ($/ton)	726	500	
Value ($ millions)	96	128	5.9
Palm kernels			
Volume ('000 tons)	23	55	19.0
Price ($/ton)	417	350	
Value ($ millions)	10	19	13.7
Canned pineapple			
Volume ('000 tons)	49	79	10.0
Price ($/ton)	750	750	
Value ($ millions)	37	59	10.0
Pepper			
Volume ('000 tons)	12.4	16.1	5.4
Price ($/ton)	2,030	2,030	
Value ($ millions)	25	33	5.4

	1965	*1970*	*Annual growth rate (%)*
Copra			
Volume ('000 tons)	37	42	2.5
Price ($/ton)	608	440	
Value ($ millions)	22	18	− 3.9
Coconut oil			
Volume ('000 tons)	11	3	−23.0
Price ($/ton)	1,017	715	
Value ($ millions)	11	2	−29.0
Minor merchandise exports			
Value ($ millions)	640	773	4.0
Service ("invisible") exports ($ millions)			
Freight and insurance	17	17	—
Other transportation	43	49	2.6
Travel	22	36	10.0
Investment income	172	100	−10.3
Government transactions n.i.e.	225	225	—
Other services	14	16	2.7
Total exports			
Value ($ millions)	4,115	4,233	0.6

II.—THE INVESTMENT TARGETS

115. If *per capita* incomes are to continue to rise during a period when population is growing rapidly but exports are rising slowly, then the production of goods and services for consumption by the domestic market must rise very rapidly indeed. It has already been noted that it was primarily by this means that the rapid economic growth of the period 1960-65 was attained. Under the First Malaysia Plan emphasis will once again be placed on increasing production for the home market by introducing new industries and promoting the expansion of existing domestic industries to minister to needs formerly satisfied by imports. An important aspect of this programme is the need to maintain and increase the high level of investment achieved in recent years. The success of the Plan will in large part depend upon the achievement of the investment targets described below.

116. Total development expenditure to be made by the public and private sectors under the Plan amounts to $10,500 million. The public sector's share in this total is $4,550 million and that of the private sector $5,950 million. Out of the public sector development expenditure of $4,550 million an estimated sum of $3,470 million will be spent on physical capital formation in the public sector. The remaining $1,080 million will be spent on development activities which do not involve public sector capital formation: the acquisition of land and other property from the private sector, subsidies

and loans to finance private production and capital formation, purchases of defence equipment, research expenditures and certain other current items. On the other hand, about $100 million of public capital formation will probably be financed out of the ordinary budget. Target public capital formation is thus $3,570 million. Target private capital formation is $6,160 million; this consists of a privately financed portion, previously referred to as private development expenditure, and an additional sum of about $210 million which represents transfers from public funds to assist private investment—grants for the rubber and coconut replanting schemes and for financing private industrial investment through MIDFL, MARA, Borneo Development Corporation Ltd., etc. Target capital formation by both the public and the private sectors is thus $9,730 million. Table 3-3 provides a reconciliation of all these sums.

TABLE 3-3

MALAYSIA: RECONCILIATION OF DEVELOPMENT EXPENDITURE AND CAPITAL FORMATION, 1966-70

($ millions)

Public sector	*Cumulative total 1966-70*
Public sector development expenditure	4,550
Uses of public sector development expenditure—	
Public sector capital formation	3,470
Other public sector uses (research, production subsidies, defence equipment, land purchases, etc.)	870
Transfers and loans to finance private sector capital formation	210
TOTAL ...	4,550
Public sector capital formation—	
Financed from development expenditure	3,470
Financed from ordinary budget	100
TOTAL ...	3,570
Private sector	
Total private sector capital formation	6,160
Financing of private sector capital formation—	
Financed from private sources	5,950
Financed by transfers and loans from public sector	210
TOTAL ...	6,160

($ millions)

	Cumulative total 1966-70
Development expenditure	
Public sector	4,550
Private sector	5,950
TOTAL ...	10,500
Capital formation	
Public sector	3,570
Private sector	6,160
TOTAL ...	9,730

117. It is expected that private investment will be the main dynamic element producing rapid economic growth during the next five years. Some of this private investment will take place in familiar lines of economic activity: estate planting and replanting, dwellings and commercial buildings, mining equipment and others. However, estate investment is unlikely to rise over the next five years and investment in some of the other traditional areas will increase only gradually. Government policy will therefore be directed towards channelling a rapidly growing volume of investment into less familiar fields, particularly industry and its related service trades, as discussed in Chapter VIII. The overall aim is to create a level of private investment which rises from about $1,010 million in 1965 to some $1,400 million by 1970. This increase is compounded of a constant level of private investment in the perennial crops sector, a 5% annual increase in private housing investment and a 10% rise from year to year of private investment in all other fields combined. The attainment of the last of these targets in particular will not be easy. Political uncertainties in Southeast Asia may well tend to inhibit private investment, especially foreign private investment. However, by vigorously pursuing well conceived development policies Malaysia will be able to create an attractive environment for private investment despite outside disturbances. If the five-year private investment of $6,160 million is achieved the results in terms of both immediate economic growth and progress towards the emergence of an industrial economy in the longer run will be substantial.

118. The aims of the public investment programme for 1966-70 are outlined in Chapter IV. The target for public sector capital formation is set at $3,570 million. Directly and indirectly, this expenditure will provide income and employment for thousands of Malaysians. It will also serve to stimulate private investment and production and provide many kinds of facilities

which are needed if Malaysians are to enjoy a fuller, happier, more prosperous life.

119. The dominant factor in determining the public capital formation target for 1966-70 is the tight financial position of the public sector described in Chapter IV. The problem of administrative and implementation capacity, which was considered to be the limiting factor on public investment at the time the Malayan Second Five-Year Plan was drawn up, has now largely been solved in so far as Malaya is concerned. However, the administrative machinery in Sabah and Sarawak is still being built up to cope with a much larger volume of work than it was required to undertake in the past. The Borneo States lag behind Malaya in standards of public facilities and services. Accordingly, development expenditure allocations for these States have been placed at levels which closely approximate estimated implementation capacity. This capacity is growing rapidly and will permit a much higher level of development expenditure in 1966-70 than achieved in the past.

120. A summary of private and public capital formation targets for 1966-70 is given in Table 3-4.

TABLE 3-4

MALAYSIA: PUBLIC AND PRIVATE INVESTMENT, 1965-70

($ millions)

Sector	*1965 (preliminary)*	*1970 (target)*	*Cumulative total 1966-70 (target)*
Perennial crops	280	340	1,570
Private	*265*	*265*	*1,325*
Public	*15*	*75*	*245*
Dwellings	195	315	1,375
Private	*175*	*225*	*1,025*
Public	*20*	*90*	*350*
Other private	565	915	3,810
Other public	670	550	2,975
TOTAL ...	1,715	2,120	9,730
Of which private	*1,010*	*1,405*	*6,160*
Of which public	*705*	*715*	*3,570*

III.—OUTPUT AND INCOME GROWTH TARGETS

121. The growth of Malaysia's national output during the next five years will depend on the effectiveness with which the economy's resources are exploited and the rate at which economic development succeeds in augmenting these resources. In some sectors of the economy output will be increased by the maturing of investments made during the last few years.

This will be the case in the perennial crops sector and also to a certain extent in industry and some parts of the service sector. Additional output growth will result from investment made under the Plan itself, although some of the effects of investments made during the next five years will not be felt until the 1970s. Not only physical capital but also human resources are being developed in Malaysia. More growth in production will come from the application by Malaysians of newly-acquired knowledge and skills to economic activity. However, since the development of human resources is now being accelerated, the main benefits from this effort will only become evident sometime in the next decade.

122. Calculations suggest that national output will rise at an average annual rate of about 5% under the First Malaysia Plan as the combined effect of all these factors. It is anticipated that the output of all export commodities combined will rise at only 2.4%, as indicated in Table 3-2. This means that, as during the last five years, overall GNP growth will be heavily dependent upon increases in production for the local market. Production for the local market (in current prices) rose at the extremely rapid rate of 10% a year in 1960-65; this high growth rate can be attributed mainly to the direct and indirect effects of a rapidly rising level of government expenditure. While further increases will be made in the high level already achieved, the tight financial position of the public sector in 1966-70 will require that public expenditure rises less rapidly under the First Malaysia Plan than it did during the preceding five years. Thus, it is not anticipated that the 10% annual growth rate of production for domestic use will be maintained. Instead, it is envisaged that the growth rate will be about 7% in real terms or 8% in current prices. With export production rising at 2.4% and production for the home market increasing at 7%, the overall growth rate of real GNP works out to about 5% per annum.

123. The growth of national income depends not only on the rise of production, however, but also on the prices at which exported products and services can be sold on the world market. It has already been noted that heavy reliance on exports, coupled with fluctuating export prices and steadily falling prices for some commodities, is one of the most serious problems of the Malaysian economy. During the next five years prices of several exports, in particular rubber, are expected to fall. Since prices of the goods and services Malaysia imports are likely to remain constant or even rise slowly, the purchasing power of a unit of Malaysian exports on the world market will probably decline. This decline will retard the growth of real income, which depends on what Malaysians can buy with the money they earn from productive activity and not directly on their physical output. Calculations based on the export projections presented in Table 3-2 suggest

that if national output rises at the forecast rate of 4.9% per annum real national income (purchasing power) will increase at a rate of 4.2%. The difference between these two rates represents the "terms of trade loss" resulting from falling prices of rubber and other exports.

124. Table 3-5 summarises the projected rates of output and income growth and relates the growth of real income to the rise in population. At the expected rate of population increase of 3% a year, real income *per capita* will rise from just under $930 to more than $980, that is, at a rate of slightly more than 1% a year. Although this rate of increase is modest, it will be an achievement in the face of relatively unfavourable external factors to protect *per capita* income levels from declining and help them to rise slowly at the same time as the foundations for a new economic structure are being laid.

TABLE 3-5

MALAYSIA: AGGREGATE OUTPUT AND INCOME, 1965-70

($ millions)

	1965 (preliminary)	*1970 (target)*	*Annual growth rate (%)*
Real output (1965 prices)			
Exports of goods and services	4,115	4,630	2.4
Production for domestic use	4,614	6,475	7.0
Real gross national product	8,729	11,105	4.9
At current prices			
Exports of goods and services	4,115	4,230	0.6
Production for domestic use	4,614	6,785	8.0
Gross national product	8,729	11,015	4.8
Purchasing power (1965 prices)			
Exports of goods and services	4,115	4,230	0.6
Production for domestic use	4,614	6,475	7.0
Real gross national income	8,729	10,705	4.2
Population (thousands)	9,411	10,910	3.0
Real gross national income *per capita* ($; 1965 prices)	928	980	1.1

125. The growth of GNP from 1965 to 1970 is likely to be unevenly distributed among the various sectors of the Malaysian economy. Table 3-6, below, gives the income targets for some of the main sectors in Malaya. It is expected that the highest growth rates of physical production will be shown by manufacturing, rubber planting, construction and some service industries, e.g. utilities, financial services, public administration and defence.

Rubber output is expected to rise at about 7% a year but falling prices will hold income growth in the industry to about 2%. Forestry and fishing, both of which have considerable immediate growth potentials, have been set physical output growth targets of 6% a year; rising prices should allow the value of forestry production in current prices to increase at a considerably higher rate. The expansion of agriculture and livestock production poses many fundamental long-run problems, so a somewhat lower immediate growth target of 5% a year has been set for that sector. The income produced by mining and quarrying will probably decline fairly sharply as tin production and both the price and output of iron ore fall. Dividing the economy of Malaya into three broad parts, the value of primary production is targeted to rise at a rate of 2.2% a year, industrial (secondary) output at 9.4% and service (tertiary) output at 5.0%. For Sabah and Sarawak, detailed information on sectoral output is not yet available. It is anticipated, however, that during the next five years output growth in these States will be less narrowly centred in the timber industry and will spread out into other sectors of the economy.

TABLE 3-6

MALAYA: GROSS DOMESTIC PRODUCT BY SECTOR OF ORIGIN, 1965-70

($ millions)

Sector	*1965 (preliminary)*	*1970 (target)*	*Annual growth rate (%)*
Agriculture, forestry & fishing	2,005	2,435	4.0
Rubber planting	*1,015*	*1,115*	*1.9*
Agriculture & livestock	*715*	*910*	*5.0*
Forestry	*120*	*205*	*10.9*
Fishing	*155*	*210*	*6.0*
Mining & quarrying	600	475	—4.6
Manufacturing	665	1,070	10.0
Construction	360	530	8.0
Electricity, water & sanitary services ...	125	200	10.0
Ownership of dwellings	305	370	4.0
Wholesale and retail trade	1,100	1,370	4.5
Public administration & defence	425	515	4.0
Other services	1,230	1,645	6.0
Gross domestic product at factor cost ...	6,815	8,615	4.8

IV.—EMPLOYMENT GROWTH TARGETS

126. If the output growth targets just outlined are successfully achieved, nearly 380,000 new jobs are likely to be created in Malaya and 80,000 in the Borneo States. The achievement of the employment target for Malaya would mean that the rate of unemployment would fall from an estimated 6.0% of the labour force in 1965 to 5.2% by 1970. The Plan would thus be successful in attaining its aim of creating sufficient employment to match the growth of labour force. It is anticipated that 165,000 new positions will be created in the primary producing sector, 36,000 in manufacturing, 42,000 in construction, utilities and transport and 134,000 in the remaining service industries. Details are provided in Table 3-7. In the Borneo States overt unemployment is not a serious problem, although under-employment does exist, especially in the rural areas. Sabah, in fact, has a widespread labour shortage, a condition which it is hoped to alleviate by encouraging migration from Malaya, as described in Chapter V. In both Sabah and Sarawak the emphasis will be more on raising skill levels than on creating new employment opportunities.

TABLE 3-7

MALAYA: EMPLOYMENT BY SECTOR, 1965-70

(thousands)

Sector	*1965 (preliminary)*	*1970 (target)*	*Net increase, 1965-70 (target)* (%)
Agriculture, forestry & fishing ...	1,388	1,553	11.9
Manufacturing	173	209	20.8
Mining & quarrying	61	61	—
Construction, utilities & transport ...	210	252	20.0
Public administration & defence ...	257	312	21.4
Other services	429	508	18.4
TOTAL ...	2,518	2,895	15.0

V.—THE GROWTH OF CONSUMPTION AND SAVINGS

127. When the growth of Malaysia's resources over the next five years is balanced against the probable growth of expenditure on private and public consumption and savings, it is seen that there is likely to be a resource gap that will have to be filled by an excess of imports over exports. If output grows at the target rate and the growth of public consumption expenditure is held to the ceilings discussed in Chapter IV, then it should be possible to hold the resource gap to a manageable size.

128. It has already been stated that because of financial stringency in the public sector and the various factors limiting the growth of private investment extremely rapid growth of gross capital formation is not to be expected during the period 1966-70. There are strong pressures working for very rapid increases in public consumption but in order to maintain the level of public savings and forestall inflationary problems or balance of payments difficulties the growth of public consumption expenditure will be rigidly limited. Still, it will be the most rapidly increasing component of national expenditure. Real private consumption should grow at about 5% a year. This growth rate will allow private consumption per head (in 1965 prices) to rise from about $560 in 1965 to about $615 by the end of the Plan period, an annual growth rate of approximately 2%. Thus, by 1970 Malaysians should be enjoying a living standard that is perceptibly better than the one existing in 1965.

129. In order to satisfy the growing demands of the private and public sectors for more consumption and investment goods, production for the local market and imports combined will have to grow at an annual rate of nearly 5%. If production for the local market can be made to increase at the target rate of 7%, then imports will have to rise at a rate of 3.6%. This rise in imports will create a considerable external deficit in the goods and services account (nearly $1,600 million in 1966-70) but a manageable one. Only if the growth of public consumption or some other component of national expenditure were to get out of hand or if import substitution were to take place at less than the target rate would imports have to rise more rapidly than is envisaged in Table 3-8. Government policy will be firmly directed towards ensuring that neither of these possibilities materialises.

TABLE 3-8

MALAYSIA: NATIONAL OUTPUT AND EXPENDITURE, 1965-70

($ millions)

	1965 (preliminary)	*1970 (target)*	*Annual growth rate, 1965-70* (%)	*Cumulative total, 1966-70*
Gross national product in current market prices	8,729	11,015	4.8	49,827
Less: Exports of goods and services	4,115	4,233	0.6	20,581
Equals: Production for domestic use	4,614	6,782	8.0	29,246
Private consumption	5 267	7,182	6.4	31,843
Public consumption	1,588	2,206	6.8	9,833
Gross capital formation	1,715	2,118	4.3	9,730
Total: Domestic demand	8,570	11,506	6.1	51,406
Imports	3,956	4,724	3.6	22,160
Surplus or deficit on goods and services account	+159	−491		−1,579

130. Another way of looking at the overall balance of resources and demands in the Malaysian economy is to examine the relationship between domestic investment and domestic savings. Gross investment must be financed either out of domestic savings or by a capital flow from abroad. If, as expected, export prices fall fairly sharply in the early years of the Plan period, domestic savings will also decline. After 1967, however, savings should resume their upward trend. The ratio of savings to GNP is likely to decline somewhat from the extraordinarily high level reached in 1965, a phenomenon which is unfortunate but perhaps unavoidable during a period of near export stagnation and severe pressure on public-sector savings. Details of the planned pattern of investment and savings are given in Table 3-9.

TABLE 3-9

MALAYSIA: SAVINGS AND INVESTMENT, 1965-70

($ millions)

	1965 (preliminary)	*1970 (target)*	*Cumulative total, 1966-70*
Gross investment	1,715	2,118	9,730
External surplus (+) or deficit (−)			
Goods and services	+159	−491	−1,579
Transfer payments	−126	+ 21	− 107
Current account	+ 33	−470	−1,686
Domestic savings	1,748	1,648	8,044
Domestic savings as a percentage of GNP ...	20	15	16

VI.—FINANCING PRIVATE INVESTMENT

131. The strategy for growth under the First Malaysia Plan accords a key role to private investment. The 1966-70 target of $6,160 million implies that private investment will be about 40% higher than the total for the previous five years. The government will maintain and adopt financial policies which will encourage investment and maintain an adequate flow of savings into productive domestic uses. Indeed, the desire to avoid a tax burden so heavy as to have a detrimental effect on private investment opportunities and finance was one of the main reasons for the adoption of a government revenue growth target which is roughly equal to the target growth rate of the economy.

132. The intended changes which it is hoped to bring about in the volume of private investment occuring in the various sectors of the economy have

already been outlined. It is expected that foreign private investors will participate actively in the diversification of the economy by investing in industry and in estate crops other than rubber. The target for private long-term capital inflow is $1,000 million for the period 1966-70. This figure is somewhat lower than the amount received in 1961-65. Despite the efforts of the government to encourage the flow of new private investment from abroad, political uncertainties in the Southeast Asian region and the impact of the tax changes recently imposed in the United Kingdom on profit remittances from overseas trading companies are likely to be dampening factors. This lower target for foreign private investment means that its share in total private investment is likely to fall fairly sharply. The importance of domestic sources of investment financing will thus have to rise correspondingly.

133. If the financial targets for private investment are to be achieved, private investment financed from local sources will have to amount to some $5,160 million—70% more than in 1961-65. It is not anticipated that this volume of local finance will be difficult to attain, although the overall savings rate of the economy is likely to decline over the next five years, reflecting the expected lower growth rate of income and company profits and the heavy burden on public revenues. Despite this prospect of a lower savings rate, savings before remittances abroad by individuals and businesses out of after-tax incomes and profits appear likely to rise to about $7,550 million during the period 1966-70. However, remittances of profits of foreign-owned companies (a large proportion of which is usually reinvested in Malaysia), pension payments and other private transfers will continue, amounting in the net to perhaps $875 million and leaving some $6,680 million to be used in financing local investment. The bulk of these savings will reach investors directly by means of self-financing, personal and inter-company lending, the stock market and other channels but about $1,025 million will probably be directly invested in government securities and a further $1,205 million is likely to be held in the form of other financial assets. Bank lending to private business may amount to approximately $500 million. This leaves a private investment financing gap of approximately $210 million, which will be filled with transfers from the public sector in the form of planting and replanting grants and other similar forms of assistance. If unforeseen financing bottlenecks develop—for example, in the industrial field—supplementary finance can be provided through agencies such as MIDFL or by means of direct lending by the Employees Provident Fund. Table 3-10 illustrates very broadly the pattern of financing that is envisaged for private investment.

TABLE 3-10

MALAYSIA: ESTIMATED PRIVATE INVESTMENT AND ITS FINANCING, 1966-70

($ millions)

		Cumulative total
Private investment target		6,160
Less:	Private long-term capital inflow	1,000
Equals:	Domestic financing needs	5,160
Domestic financing for private investment—		
	Private savings before transfers and remittances	7,555
Less:	Net transfers and remittances	875
Equals:	Private savings after transfers and remittances	6,680
Less:	Purchases of government securities	1,025
Less:	Increase in savings accounts and monetary holdings	1,205
Equals:	Self-finance and other non-bank financing sources	4,450
Plus:	Bank lending to private sector	500
Equals:	Investment finance from domestic private sector	4,950
Plus:	Public sector financing of private investment	210
Equals:	Total domestic financing	5,160

VII.—BALANCE OF PAYMENTS PROSPECTS

134. Malaysia will have a potentially serious balance of payments problem during the period 1966-70 but if the targets for output growth, foreign assistance for the public investment programme and foreign private investment are met and the level of public savings is maintained the problem will be kept well in hand. The balance of payments problem arises from the fact that the value of Malaysian exports is growing very slowly at precisely the time when import requirements are on the increase. Import

requirements in 1966-70 will almost certainly exceed export receipts by a wide margin. The growth of imports primarily reflects the rising population of Malaysia and the increased consumption resulting from higher income levels. Many but not all of these needs will be met from increased local production if Plan output targets are achieved. Increasingly, local production will substitute for imports and restrain the growth of expenditure on imported items. However, there are many goods and services which cannot be produced locally, at least not during the next five years. Moreover, import substitution itself has its import component: the imported capital goods and raw or semi-finished materials needed by growing local industries. Even if all the targets referred to at the beginning of this paragraph are achieved, then payments for imported goods and services in 1966-70 will exceed export proceeds by $1,579 million. To the extent that there are shortfalls on the output or financing targets or breakthroughs of the public consumption expenditure ceiling, the goods and services deficit will be increased.

135. In addition to the money needed to pay for imported goods and services, considerable demands are also placed on Malaysia's foreign exchange resources by private foreign remittances. These have amounted to more than $200 million a year in recent years, excluding profit remittances, which are regarded as factor incomes rather than transfer payments. During the next five years there may be some tendency for these remittances to decline, as the ties linking one-time immigrants to Malaysia with their countries of origin gradually weaken. Net private remittances are projected at a total of $874 million over the First Malaysia Plan period. If this sum is added to the deficit of $1,579 million expected on goods and services account, then the amount of foreign exchange required to pay for imports and private remittances is seen to exceed prospective export receipts by about $2,450 million.

136. These foreign exchange needs must be satisfied through some combination of receipts from official grants from foreign governments and international bodies, net foreign private investment in Malaysia, official loans, use of foreign exchange reserves and other short-term capital movements. Table 3-11, below, shows the pattern of financing envisaged in the Plan. In the first place, the current account deficit will be substantially smaller than the balance on goods, services and private transfers if the Plan target of $900 million of official foreign grants is fulfilled. Grant assistance of this magnitude would reduce the current account deficit to around $1,700 million. It would thus play a vital role in helping the Malaysian economy to achieve growth with reasonable balance of payments stability.

TABLE 3-11

MALAYSIA: BALANCE OF PAYMENTS, 1965-70

($ millions)

	1965	*1970*	*Cumulative total, 1966-70*
Current account			
Goods and services			
Receipts	4,115	4,233	20,581
Payments	3,956	4,724	22,160
Net position	+159	−491	−1,579
Private transfers			
Receipts	25	36	161
Payments	225	190	1,035
Net position	−200	−154	−874
Balance on goods, services and private transfers	−41	−645	−2,453
Government transfers			
Receipts	156	200	900
Payments	82	25	133
Net position	+74	+175	+767
Current account balance	+33	−470	−1,686
Capital account			
Long-term capital (net)			
Private	+260	+200	+1,000
Public	+107	+250	+1,000
Monetary movements and short-term capital, including errors and omissions	−400	+20	−315
Capital account balance	−33	+470	+1,686

137. In Chapter IV it is noted that the public sector financial plan envisages net foreign borrowing of $1,000 million and use of government accumulated assets and borrowings from the banking system amounting to $1,000 million. These large sums reflect an excess of planned public investment over planned savings in the public sector. In the private sector, by contrast, it is likely that there will be some excess of domestic savings over domestic investment. Thus, a certain amount of net borrowing by the public sector from the private sector will probably take place.

138. Prospects for private foreign long-term investment have already been discussed. It is the government's intention to create a sufficiently attractive climate for foreign investment that $1,000 million or more of net long-term private capital inflow will take place. If this target is fulfilled and short-term capital movements are held within the limits anticipated, it should be possible to avoid serious pressures on the nation's foreign exchange position.

139. Though data in the area of balance of payments are still weak and future trends are hard to predict in any case, it is possible to give a general idea of the trends expected under the First Malaysia Plan, as indicated in Table 3-11 above.

VIII.—AN OUTLINE PERSPECTIVE PLAN FOR 1965-85

140. This chapter has presented the numerical and analytical framework of the First Malaysia Plan. As already indicated in Chapter I, the present Plan represents only the initial phase in a long-term plan of social and economic development. The objectives of the 20-year Perspective Plan have already been enumerated. They are to achieve by 1985 a *per capita* income level of $1,500 or more, full employment, a more equitable distribution of income, greatly improved social and community services, a highly developed economic infrastructure and a lower rate of population growth. The following paragraphs and tables set out in very general, illustrative terms the quantitative economic changes which will have to take place if these objectives are to be realised. The highly tentative nature of the calculations cannot be over-emphasised. In five years time, when the Second Malaysia Plan is formulated, adjustments will undoubtedly have to be made in the 20-year frame. Nevertheless, it is valuable to have a general perspective which reaches far beyond the current five-year plan and this is the purpose of the Perspective Plan.

141. Table 3-12 gives the basic framework of the Perspective Plan. It is based on the premise that by improving the human, institutional, material and intellectual foundations of the economy early in the 20-year period it will be possible to bring about an increasing rate of growth throughout its length. As the nation moves away from its present vulnerability to declines in commodity prices, the present gap between physical output growth and the rise of aggregate income will narrow. As the population growth rate is gradually reduced to a manageable level, the difficulty of finding employment for the increasing labour force will gradually ease. *Per capita* income will move upwards at an increasing rate, reaching a level of $1,500 or more by 1985. These targets can be made a reality through a determined development effort.

TABLE 3-12

MALAYSIA: BASIC FRAMEWORK OF THE PERSPECTIVE PLAN, 1965-85

	1965	*1970*	*1975*	*1980*	*1985*
Gross national product ($ millions; 1965 market prices)	8,729	11.105	14,500	19,400	26,600
Gross national income ($ millions; 1965 market prices)	8,729	10,705	13,700	18,000	24,700
Population (thousands)	9,411	10,910	12,460	14,030	15,650
Labour force (thousands)	3,226	3,690	4,230	4,880	5,660
Employment (thousands)	3,066	3,530	4,020	4,690	5,430
Per capita income ($, 1965 prices)...	928	980	1,100	1,280	1,580
	First Malaysia Plan (1965-70)	*Second Malaysia Plan (1970-75)*	*Third Malaysia Plan (1975-80)*	*Fourth Malaysia Plan (1980-85)*	*Perspective Plan (1965-85)*
Annual growth rate (%)—					
Gross national product	4.9	5.5	6.0	6.5	5.7
Gross national income	4.2	5.0	5.7	6.5	5.3
Population	3.0	2.7	2.4	2.2	2.6
Labour force	2.7	2.8	2.9	3.0	2.9
Employment	2.8	2.8	2.9	3.0	2.9
Per capita income	1.1	2.3	3.2	4.1	2.7
Investment needs—					
Gross investment ($ millions; 1965 prices)	9,730	11,900	17,200	25,200	64,000
Assumed ICOR*	3.9	3.5	3.5	3.5	3.6
Investment/GNI ratio	19.9	19.2	21.2	23.0	21.2

142. It has already been stated in Chapter I that the two basic elements of the long-term growth strategy are a change in the structure of the economy and the execution of a large investment programme financed primarily out of domestic savings. Table 3-13 illustrates the kind of change in the structure of output which will have to take place if aggregate output and income are to grow as hypothesised in Table 3-12. The table assumes that natural rubber will remain viable after 1970 and that production will continue to rise, even though further price declines may occur. It envisages that steady growth will occur in other branches of agriculture and in fishing and forestry. Mining output is expected to stagnate after 1970, although sizable new mineral discoveries could produce a much more favourable performance. Industrial output is expected to grow most rapidly of all, rising to nearly a quarter of the total by 1985. The service sector is likely to grow at about the same rate as the overall economy or slightly more rapidly, meanwhile

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* ICOR stands for the incremental capital/output ratio, i.e., the amount of investment required to produce a given increase in GNP.

changing its internal composition to comprise more and more professional and other high-productivity services and less personal services and other low-productivity categories. Changes in the structure of employment, roughly paralleling those in the output structure, will also have to occur if the 1985 output and income targets are to be achieved.

TABLE 3-13

MALAYSIA: PROJECTED GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ORIGIN, 1965-85

	1965	*1970*	*1975*	*1980*	*1985*	*Annual growth rate (%)*
		In $ millions (1965 prices)				
Primary production	2,970	3,200	3,940	4,890	6,110	3.7
Rubber planting	*1,095*	*1,200*	*1,530*	*1,950*	*2,490*	4.2
Other agriculture, forestry and fishing	*1,250*	*1,500*	*1,910*	*2,440*	*3,120*	4.7
Mining cnd quarrying	*625*	*500*	*500*	*500*	*500*	—
Industry	1,215	1,950	2,870	4,030	5,390	7.7
Services	3,645	4,800	6,190	8,480	12,300	6.3
GDP at factor cost	7,830	9,950	13,000	17,400	23,800	5.7
		% of total GDP				
Primary production	38	32	30	28	26	
Rubber planting	*14*	*12*	*12*	*11*	*10*	
Other agriculture, forestry and fishing	*16*	*15*	*15*	*14*	*13*	
Mining and quarrying	*8*	*5*	*4*	*3*	*2*	
Industry	16	20	22	23	23	
Services	46	48	48	49	52	
GDP at factor cost	100	100	100	100	100	

143. Output growth rapid enough to achieve all the Perspective Plan targets by 1985 will require gross investment of perhaps $64,000 million over the next 20 years (Table 3-12). As long-term capital inflows are unlikely to finance a substantial portion of this investment and the use of foreign exchange reserves to finance capital formation offers only a temporary expedient, domestic savings must rise very rapidly after 1970 if the needed investment is to be undertaken. Public policy for some years to come will have to be directed towards the encouragement of savings in both the private and the public sectors. If adequate savings are not forthcoming, high investment rates and rapid growth will impose a strain on the balance of payments. The crux of the development strategy for a long time to come will be the promotion of rapid growth, structural diversification and savings.

144. Tables 3-14 and 3-15 suggest one possible solution to the balance of payments-investment finance problem. In the former table it is assumed that the growth of exports can gradually be accelerated after 1970, to 3%, 4% and eventually 5% per annum. Transfers out of the country are expected to be balanced by transfers into the country after 1970. Long-term capital inflow is pictured as rising to $500 million by 1975 and remaining at that level throughout the balance of the 20-year span. It is expected to contribute more than $8,000 million to investment finance over its length. If imports are to grow no more rapidly than the capacity to finance them and the required volume of investment is to be carried out, then national savings must total nearly $56,000 million. The effort involved in this feat is indicated by the fact that the marginal savings rate must average 18%. That is, Malaysians must refrain from spending on consumption 18 cents out of every extra dollar provided to them by economic growth over the next 20 years. The benefits of doing this, however, will amply repay the sacrifice.

145. For this general solution to the balance of payments-investment finance problem to be achieved, considerable changes in the pattern of both exports and imports, as well as some conscious limitation of import expenditure, will probably be required. Traditional exports will not prove capable of providing the growing levels of export receipts envisaged after 1970; the promotion of new agricultural and industrial exports will have to fill the gap. On the import side, holding the growth of imports to the indicated amounts may necessitate the use of a certain amount of import restraint. Furthermore, if the investment and GNP growth targets are to be attained it will undoubtedly be necessary that intermediate and investment goods take up a larger share of total imports in the future than they do at present.

TABLE 3-14

MALAYSIA: PROJECTED BALANCE OF PAYMENTS, 1965-85

	1965	*1970*	*1975*	*1980*	*1985*
	In $ millions (current prices)				
Exports of goods and services ..	4,115	4,233	4,900	6,000	7,600
Imports of goods and services ..	3,956	4,724	5,500	6,500	8,100
Balance on goods and services ..	+159	−491	−600	−500	−500
Transfers (net)	−126	+ 21	—	—	—
Balance on current account	+ 33	−470	−600	−500	−500
Long-term capital inflow (net) ..	+367	+450	+500	+500	+500
Basic balance	+400	− 20	−100	—	—
	1965-70	*1970-75*	*1975-80*	*1980-85*	*1965-85*
	Annual rate of growth (%)				
Exports of goods and services ..	0.6	3.0	4.0	5.0	3.1
Imports of goods and services ..	3.6	3.1	3.4	4.5	3.7

TABLE 3-15

MALAYSIA: PROJECTED INVESTMENT FINANCE, 1965-85

	1965	*1970*	*1975*	*1980*	*1985*
			In $ millions (1965 prices).		
Gross national income	8,729	10,705	13,700	18,000	24,700
Target investment	1,715	2,118	2,720	4,100	5,620
Domestic savings	1,748	1,648	2,120	3,600	5,120
External finance	− 33	470	600	500	500
			As a percentage of GNI		
Target investment	19.6	19.8	19.9	22.8	22.8
Domestic savings	20.0	15.4	15.5	20.0	20.7
External finance	− 0.4	4.4	4.4	2.8	2.0

	1965-70	*1970-75*	*1975-80*	*1980-85*	*1965-85*
			Annual rate of growth (%)		
Gross national income	4.2	5.0	5.7	6.5	5.3
Target investment	4.3	5.1	8.6	6.5	6.1
Domestic savings	− 1.2	5.2	11.2	7.3	5.5

146. It should be stressed once more that the figures given in Tables 3-12 to 3-15 are far from being infallible predictions of what will happen during the next 20 years. They will not in fact materialise unless Malaysians lend their fullest energies to the improvement and development of their economy and society.

CHAPTER IV

The Public Sector Programme and its Financing

I.—INTRODUCTION

147. The public sector development expenditure programme encompasses expenditure on the economic, social, administrative and security programmes of the Federal and State Governments and public and local authorities during the period of the First Malaysia Plan, 1966-70. The phasing of development expenditure for each year of the Plan period will be undertaken in the course of the preparation of the annual development budgets. Any firm indication of the phasing of the total five-year expenditure target would not be realistic at this stage as account has to be taken of changing economic and financial conditions, which will largely dictate the annual level of expenditure within the framework of the Plan. Nevertheless, it will be government policy to achieve a phasing and level of expenditure which will be consistent with the financial, technical and organizational capacities of the economy at large and the government in particular.

148. The public sector development expenditure programme also does not indicate at this stage the amount of expenditure to be financed by specific public agencies for specific purposes, although in formulating the programme the expected financial resources of all levels of government have been taken into account. Changes will inevitably arise in the specific assumptions which have been made in estimating the likely financial resources of the public sector over the next five years. It would be unrealistic at present to foresee this in greater detail than is required and therefore the distribution of financial responsibility between the different levels of government for expenditure to be incurred annually will be the subject of arrangement to be made from year to year.

II.—SIZE OF THE PUBLIC SECTOR DEVELOPMENT EXPENDITURE PROGRAMME

149. The estimated public sector development expenditure needed to attain the objectives of the First Malaysia Plan amounts to a total of $4,550 million for the period 1966-70. This is 46% more than the expenditure of about $3,110 million during the last five years. Economic and social development expenditure of $3,810 million will be 36% more than similar expenditure in the corresponding past period, while defence and internal security expenditure will be 138% more. This vast increase in planned defence and internal security expenditure has been made necessary by the need to strengthen the ability of the country to withstand military confrontation. To a large extent the requisite build-up of military and police capabilities underlies the substantial financial difficulties with which the public sector will have to contend in the immediate future.

150. The necessary increases in defence and police expenditure would have been sufficient to warrant a drastic curtailment of expenditure for economic and social development. However, as is evident from the planned public sector development expenditure programme, the government is not prepared to adopt this course. Through more intensive mobilisation of domestic financial resources and recourse to external financial assistance, the government is intent on ensuring that there will be no retardation in the momentum of economic and social development which has been generated by past development plans. The government is determined to ensure that Malaysia will advance and continue to prosper through the strengthening of its military defences and by rapid economic and social development.

III.—SECTORAL ALLOCATION OF PUBLIC ECONOMIC AND SOCIAL DEVELOPMENT EXPENDITURE

151. The income and employment objectives of the First Malaysia Plan are stated in Chapter I. The attainment of these objectives will require that advances be made in reducing the dependence of the economy on a limited number of primary activities through agricultural diversification and industrialisation. In view of the private enterprise character of the economy, the direct operational responsibility for the implementation of this strategy will lie with the private sector. The government in turn will strive to provide the necessary capital and technical assistance and establish as rapidly as possible the physical and human pre-requisites for rapid and diversified economic growth. It will also facilitate private sector activity through the implementation of policies that will induce private entrepreneurs to move at the pace and in the directions required for soundly-based economic development.

152. The main emphasis of the government's development programme will therefore be on projects which are designed to increase productivity and investment in a widening range of primary and secondary industries. Of the total allocation for economic and social development expenditure, about 24% will be for agriculture and rural development projects. The amount to be so expended is more than double the expenditure in the last five years. The main items of expenditure include (i) a large programme to open new land for settlement and cultivation of oil palm, rubber and a number of other crops; (ii) continuation of rubber replanting; (iii) irrigation and drainage projects to extend the area of double-cropping and otherwise improve and expand the cultivation of padi and other crops; (iv) expanded programmes of agricultural research in order to improve existing practices of production and develop new production possibilities; and (v) provision of technical and material assistance to farmers to enable them to increase their productivity and encourage diversification in agricultural production.

153. In the field of industrial development, the provision allocated is for (i) further development of industrial estates; (ii) establishment of industrial research facilities; (iii) launching of the Federal Industrial Development Authority; (iv) strengthening of MARA to enable it to expand material and technical assistance to indigenous entrepreneurs interested in industrial development; and (v) provision of further assistance to MIDFL and the Borneo Development Corporation Ltd. to enable them to expand their industrial credit activities.

154. The public sector programme also gives emphasis to education projects. Education will account for about 10% of total development expenditure, or about 60% more than the sum expended during 1961-65. The object of the programme is to expand and improve the education system so that the required quantity and quality of skilled personnel, particularly in the fields of agriculture and industry, will be produced.

155. As a result of the measures taken under the first and second Malayan five-year development plans, Malaya embarks upon the First Malaysia Plan with a reasonably sound economic infrastructure of transport and communication facilities and electricity and water supply systems. The programmes in these areas during the next five years will therefore be geared to ensuring that there will be sufficient capacity to meet foreseen demand. This will involve about the same level of expenditure as in the last five years. In the Borneo States, however, the infrastructure is relatively underdeveloped. The government has therefore an important role to play in the immediate future in developing the infrastructure of these States to an adequate level. Expenditures about 35% higher than those of the last five years will be utilised for this purpose.